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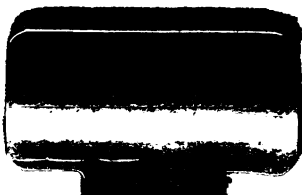
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**BEFORE
THE FEDERAL TRADE
COMMISSION**

BRIEF

ON BEHALF OF

**The National Lumber
Manufacturers Association**

JOSEPH N. TEAL

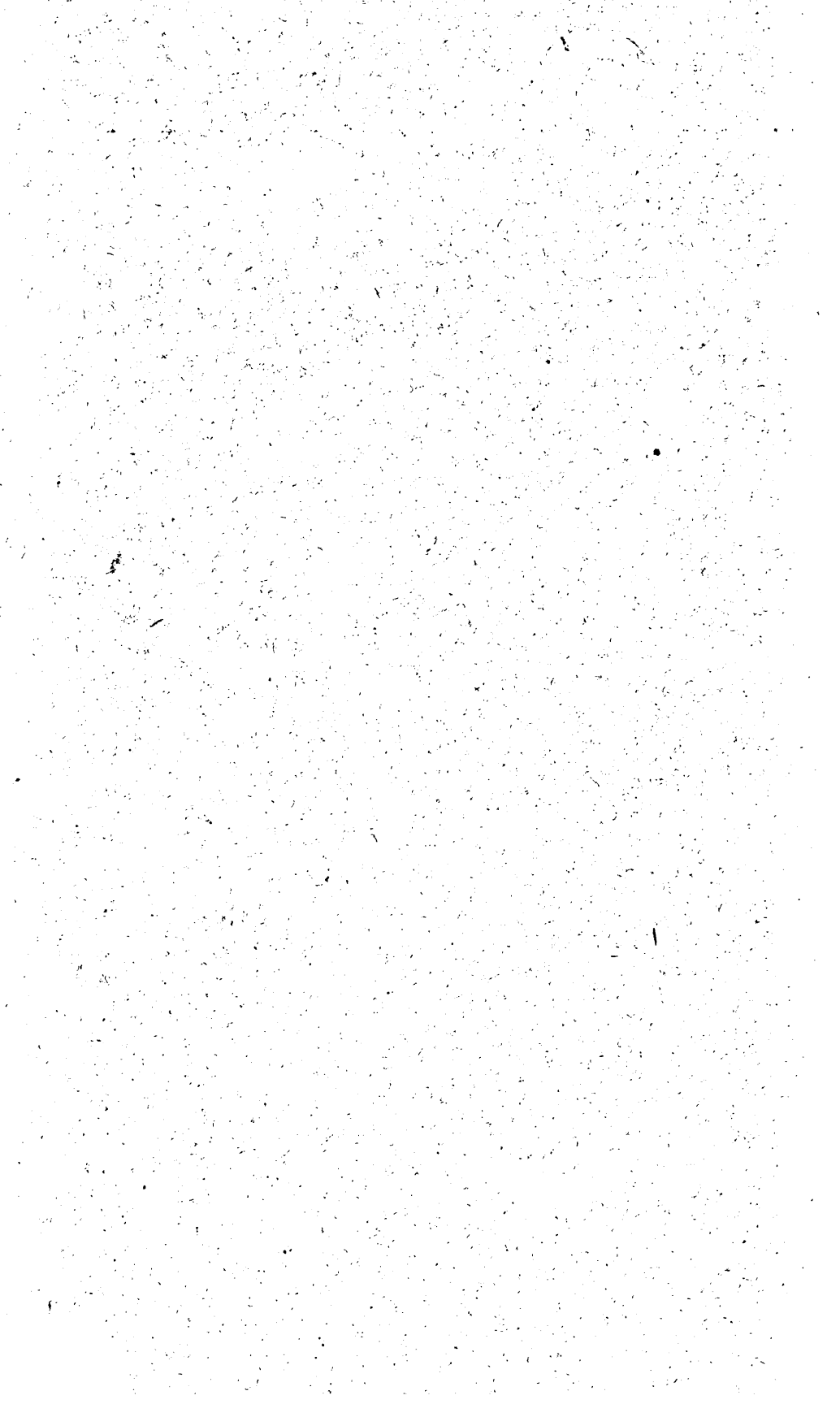
L. C. BOYLE

ROGERS MAC VEAGH

COUNSEL

WASHINGTON, D. C.

JANUARY, 1916



BEFORE
THE FEDERAL TRADE
COMMISSION

B R I E F

On Behalf of

*The National Lumber Manufacturers
Association*

JOSEPH N. TEAL
L. C. BOYLE
ROGERS MAC VEAGH
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WASHINGTON, D. C.
JANUARY, 1916

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BEFORE THE FEDERAL TRADE COMMISSION THE LUMBER INDUSTRY

I.

INTRODUCTION.

Statement.

During the past year the Federal Trade Commission has held extended hearings throughout the United States, touching the lumber industry in all its phases. Every opportunity was given those interested to present the facts. It required no proof to show the perfectly obvious fact that the industry generally was in an unsatisfactory condition; and throughout all the hearings there was plainly perceptible an undercurrent of opinion that, while there might be intermittent periods of better prices and satisfactory business, nevertheless the industry rested on an insecure foundation. Something was radically wrong when, in an industry of such magnitude, the business generally was not of a more stable character. Suggestions were invited and expressed as to what might be done to remedy the situation. Considerable diversity of opinion exists as to what the Commission can affirmatively do. There is, however, on the part of those connected with the industry, but one opinion as to the Commission's attitude. All feel that the Commission desires to encourage in every proper way possible the commerce and industry of this country. Consequently the representatives of the lumber industry frankly laid before the Commission the facts as they saw them, feeling sure that, even if no other result followed, their efforts would serve to give the public a better idea not only of the magnitude of the industry,

but also of the extent to which its operations affect business throughout the country.

We submit that the operations of a business, nationwide in extent, directly employing hundreds of thousands of workers, requiring millions of capital, dealing in a necessary of life which is procured from a natural and not easily reproducible source, may become charged with a public interest. It is on this basis and under this principle that those representing the industry are submitting their cause to the Commission. They believe that, as stewards and, in a measure, trustees of a great responsibility, they are entitled to all the assistance which the government can rightfully give, through either the executive, the legislative, or the administrative departments.

This is the situation presented: the third greatest industry in this country has for a number of years past been slowly getting into worse condition, until now, to put it plainly, it is on its back—this, too, in spite of every effort in the practice of better methods and economies in operation. It is plain that advances in price, while temporarily altering conditions, afford no solution unless they are permanent. It is but the merest truism to say that any legitimate industry should pay a fair profit. That it should operate at a loss is not only unnatural and uneconomic, but it does not even benefit the public. The public as a whole can only prosper as the units making that public prosper, and we have no patience with any theory that counts as gains, losses by others in the conduct of legitimate business enterprises.

In seeking to maintain any industry that is not returning profits, wages and salaries are generally the first item of cost to receive consideration. This is peculiarly true in the lumber industry, for not only are wages and salaries by far the largest element of cost, but they are about the only factors even measurably under the control of the operator. Rent is usually a small item; and taxes, prices of supplies, etc., are not under the operator's control. The wage earners are therefore quite as much in-

terested in the successful operation of the business as is the owner. The effect of depression in the lumber industry on other business and occupations is obvious. We are thus brought face to face with issues which, although in themselves they may seem simply to involve the conduct of an industry, are in reality questions of the gravest importance and of world-wide significance. These the Federal Trade Commission must meet, and in the solution of them social as well as economic principles must be largely dealt with.

Only such statistics as are necessary will be printed in this brief. Detailed information covering all branches of the subject is in the hands of the Commission, and our purpose is to summarize the whole situation fairly, not from the viewpoint of the lumberman only, nor yet from that of the consumer, but keeping steadily in mind the interest which the whole country has in the question, both for the present and for the future. Our purpose will be fulfilled if we can in any way assist this Commission in its unprecedented task of constructive work. The Commission is in a measure entering upon unmapped country, and the business man—yes, and the entire country—is looking to it to blaze a way that will lead to a solution of many of the difficulties under which business and industry have labored in the past.

General Facts.

The following statement, condensed from the evidence submitted at the various hearings, will, we believe, be accepted as accurate:

First: The lumber business constitutes one of the great industries of this country, and deals with and is founded on the care and disposition of a natural product of common use, the reproduction of which is a slow and costly process.

Second: In the three northwest states of Idaho, Washington, and Oregon it is the dominant industry, and the same is true of northern California.

Third: A large number of people are directly dependent on the industry for their livelihood.

Fourth: The conservation of a great natural resource of common use is intimately connected with the business.

Fifth: Now and for some time past the industry is and has been in a depressed condition.

Sixth: During this depression the manufactured product has been sold to the trade by the manufacturers at or about the cost line and in many cases at an actual loss.

Seventh: Consumption of the product is and for the past three years has been decreasing.

II.

DEVELOPMENT OF THE INDUSTRY AND PREVAILING CONDITIONS.

The Issue.

The orderly course of procedure in a trial before a court or a hearing before a commission is briefly to state the issue. Usually there are parties representing adverse interests whose differing views as to law or fact make this easy of definition. Such is not the case in this instance; for while we are representing the lumber industry, if we are doing our duty, we are representing it not to advance its peculiar interest or to secure some advantage personal to it, but for the purpose of developing fundamental facts, ascertaining the truth, and, when that is ascertained, determining what, if any, remedies may be applied by the individual or by governmental agencies to relieve the situation as it may be found to exist. This we apprehend is what the Commission is also undertaking to do.

On November 21, 1914, the "American Lumberman" published a statement by Chief Forester Graves respecting an investigation of the lumber industry about to be undertaken by the Forest Service. From this statement we take the following excerpts:

"There is no use denying the fact that the lumber industry is depressed. Now, it must certainly be harmful to the public to have a great industry like this in a state of depression and yet there must be some reason for it. Before there can be any improvement it seems to me that the reason must be discovered and when it is discovered—that is to say, when all the facts have been brought together—then it remains to be seen if the Government, which is an impartial public agency, can not suggest a remedy. * * *

"But all these questions merge again into the greater question of conservation. It is a fact that I do not believe can be controverted that there is more waste in cutting timber today than there has been for years. There is too much good material being left in the woods, too much being burned. This is a very vital question, for it affects the supply of timber that, unless it is conserved and made to replace itself, will before long be exhausted and then a century will be required to replace it.

"But, with depressed business, with price cutting, with a general scramble to sell lumber to meet the carrying charges, things can not be otherwise, and that is a good reason for the Forest Service undertaking this inquiry into the cause for the depression and to seek a remedy for it."

There can be no question but that Mr. Graves accurately described the condition of the industry. In addition to the depression it has been laboring under, it has also for some time been the subject of more or less criticism and attack, which has to a considerable degree created an unfavorable impression towards the business generally.

The manufacture of lumber is usually carried on in the more remote sections. The manufacturers rarely come in contact with the consumers of lumber, and quite often do not even deal directly with those who handle their products. These facts have led to many misconceptions as to the industry and its operations, and the part the manufacturer plays in it, and has also led to many unjust criticisms, arising out of a misunderstanding of the true facts. It is doubtful if any manufacturing activity in this country will show over any considerable period profits as uniformly meager as will the manufacture of lumber. Those representing the industry have endeavored to aid the Commission in this investigation. Their books of account have been thrown open, and the desired information has been given freely. In addition, the Forest Service and other governmental agencies have been conducting in their own way an examination of the facts and an

inquiry into the business, so that it can be safely assumed that when the final reports are in and are sifted and analyzed the Commission will be in possession of all pertinent facts.

It would seem that the issues, if they may be so termed, can be reduced to three main points, and the ultimate question to one, although necessarily collateral questions are involved.

I.

Is there a lumber "trust," in the common acceptance of the word, amongst or composed of the lumber manufacturers of the United States? and, in connection with this question, is the lumber industry being conducted in a manner which is harmful to the consumer of the product or to the public generally?

II.

Is the lumber industry now, and has it been for a considerable time in the past, from a business standpoint, in a sound and healthy state? or, to put it another way, is the business in the condition in which an important industrial factor in this country should be?

III.

If it is not, what is the cause, or what are the causes of the state or condition found to exist?

IV.

What may be done through individual effort or governmental agencies to remedy the situation found to exist?

It is to a consideration of these questions that we will now address ourselves, deeply conscious of the responsibility as well as of the difficulty of doing justice to a subject covering so many matters of vital concern and consequence not only to the individual but to the nation as well. We will, however, feel that our work has not been fruitless if it shall lighten to some extent the labor of the Commission and aid in solving a most difficult problem.

GENERAL SURVEY.

IMPORTANCE IN PACIFIC NORTHWEST.

(1) *In General.*

Before proceeding with more detailed statements respecting the lumbering industry in the above named states, a general review of the situation may be useful. In 1910, according to Bureau of Corporation estimates, Idaho had within its borders about 129 billion feet of standing timber; Washington 391 billion feet; and Oregon 545 billion feet. This represents about 37% of the standing timber of the United States. Of this amount it is estimated that 70% is owned by individuals or corporations, and 27% is in the hands and under the control of the Federal Government. The states each own more or less, but the percentage is trifling compared to the Federal Government's. This large government ownership, its purpose, and its future disposition will hereafter be considered. The area of the three states named is about 250,000 square miles, greater than that of the German Empire, and the operations of the industry under review affect in a greater or less degree the business and welfare of the entire section. The magnitude and importance of the industry in general throughout the United States are within the knowledge of the Commission. In men employed, capital invested, and output, it ranks first, second and third amongst the industries. While this fact is significant from the standpoint of the nation at large, it is, of course, of much greater consequence to the people of these three states, considering the relation borne by the lumber industry to the other industries in the same territory.

(2) *General Statistics—Census of 1910.*

The census of 1910 reveals the following facts with respect to the lumber industry of the United States:

| | |
|---|-----------------|
| Employed in industry..... | 784,989 |
| Value of product..... | \$1,156,129,000 |
| Capital invested | \$1,176,675,000 |
| Railway tonnage, lumber and other forest products | 193,239,733 |

Of those engaged in the industry 695,000 are wage earners, 41,000 salaried employees, and the rest proprietors. The average annual wage at the time of the 1910 census was \$457 per annum; the average annual salary \$1,158. In the number of wage earners employed the lumber industry stands first; in capital invested, second; in value of products, third—being exceeded in this last regard only by the meat industry and the manufacture of foundry and machine products; and only products of mines furnish more tonnage to railroads.

In 1910, according to the estimate of the Bureau of Corporations ("The Lumber Industry," Part I, p. 6), there were standing in the United States 2,826,000,000,000 board feet of saw timber, estimated at a stumpage value of six billion dollars. Of this vast quantity 2,197,000,000,000 feet are privately owned and 629,000,000,000 feet, or one-fifth of the total stand are owned by the Federal Government. This timber covers 200 million acres, representing one-tenth of the total land area of the United States. The magnitude of these figures is in itself an indication not only of the importance, from both an industrial and a social aspect, of the question under consideration, but also of the enormity of the task the Commission must face if the problem (for it is a problem) is to be successfully solved.

(3) *Statistics—Idaho, Washington, and Oregon.*

Turning now from the statistics for the whole United States, it is of interest to note the great importance of

this industry to the three northwest states. We have already said that the standing timber in them is estimated at 1,065 billion feet, and represents 37% of the standing timber of the United States. It covers roughly 50% of the total area in each of these states. According to the statement submitted by Mr. H. D. Langille at the Tacoma hearing (Rec., p. 36), it appears that the lumber cut of Oregon and Washington in 1913 was 6,690,500 M feet or 17.4% of the cut of the United States; that 3.8% of the total population of the United States was directly dependent on the lumber industry, while the corresponding percentage in Washington is 18.7 and Oregon 11.1.

The following tabulation was submitted by Mr. Langille. It speaks for itself:

COMPARISON OF THE LUMBER INDUSTRY WITH ALL OTHER INDUSTRIES COMBINED.

State of Washington.

| | |
|---|--------------|
| Total number of wage earners in all industries | 69,120 |
| Total number of wage earners in the lumber industry | 43,749 |
| Per cent of all wage earners employed in the lumber industry | 63.3% |
| Amount of wages paid wage earners in all industries annually | \$49,776,000 |
| Amount of wages paid wage earners in lumber industry annually | 31,327,000 |
| Per cent of all wages paid wage earners in the lumber industry | 62.9% |
| Salaries paid to employees of all industries annually | \$ 9,827,000 |
| Salaries paid to employees of the lumbering industry annually | 3,615,000 |
| Per cent of salaries paid employees of lumber industry | 27.2% |
| Total amount paid out for services by the industries of the state annually: | |
| By all industries | \$59,603,000 |
| By the lumber industry | 34,942,000 |
| Per cent furnished by the lumber industry | 58.6% |

State of Oregon.

| | |
|---|--------------|
| Total number of wage earners in all industries | 28,750 |
| Total number of wage earners in the lumber industry | 15,066 |
| Per cent of all wage earners employed in the lumber industry | 52.4% |
| Amount of wages paid wage earners in all industries annually | \$19,902,000 |
| Amount of wages paid wage earners in lumber industry annually | 10,172,000 |
| Per cent of all wages paid wage earners in the lumber industry | 51.1% |
| Salaries paid to employees of all industries annually | \$ 4,047,000 |
| Salaries paid to employees of lumber industry annually | 1,267,000 |
| Per cent of salaries paid employees of lumber industry | 31.3% |
| Total amount paid out for services by the industries of the state annually: | |
| By all industries | \$23,949,000 |
| By the lumber industry | 11,429,000 |
| Per cent furnished by the lumber industry | 47.7% |

State of Idaho.

| | |
|--|--------------|
| Total number of wage earners in all industries | 8,220 |
| Total number of wage earners in the lumber industry | 5,212 |
| Per cent of all wage earners employed in the lumber industry | 63.4% |
| Amount of wages paid wage earners in all industries annually | \$ 5,498,000 |
| Amount of wages paid wage earners in lumber industry annually | 3,382,000 |
| Per cent of all wages paid wage earners in the lumber industry | 61.5% |
| Salaries paid to employees of all industries annually | \$ 984,000 |
| Salaries paid to employees of the lumber industry annually | 459,000 |
| Per cent of salaries paid employees of lumber industry | 46.6% |

Total amount paid out for services by the industries of the state annually:

| | |
|---|--------------|
| By all industries..... | \$ 6,842,000 |
| By the lumber industry | 3,841,000 |
| Per cent furnished by the lumber industry | 59.3% |

The value of the lumber and timber products of Oregon, Washington and Idaho for the year 1910 was \$30,200,000 in Oregon, \$89,155,000 in Washington and \$10,689,310 in Idaho, or a grand total for the three states of \$130,053,310. A conservative estimate made by the Forest Service shows that under normal conditions (1913) the total annual timber cut of the state of Washington is about four billion board feet per annum, and over three-quarters of a billion feet goes into shingles. The annual timber cut in the State of Oregon on the same basis is 1,750,000,000 feet B. M. ("West Coast Lumberman," Feb. 15, 1914,—H. B. Oakleaf of the Forest Service) and of Idaho is 650,000,000.

To summarize, about 63% of all wage earners in the state of Washington are employed in the lumber industry, and it pays about the same per cent of the total wages. In Oregon the per cent of wage earners employed is about 52; in Idaho, 60. Figures which we believe to be accurate show in the three northwestern states about 100,000 wage earners in all industries, of which about 64,000 are employed in the lumber industry. The total annual value of all products is about \$336,000,000; lumber and products of lumber \$130,000,000. In capital invested, men employed, value of output, and taxes paid, no industry is comparable to that of lumbering. The effect of its operation, successful or otherwise, is far reaching. The farmer, the mechanic, the laborer, the merchant, the banker, alike feel the baleful effect of its depression and share in its prosperity. In many sections of the Pacific coast the logging camp and the saw mill are directly responsible for the growth and development of adjacent territory, not only agriculturally, but otherwise. Many a school is maintained throughout the timbered country,

and many a road built, which would not be in existence were it not for this industry. Many very considerable towns are absolutely dependent on it both for their present existence and for their continued growth and development. Agriculture in many sections follows the mills; and the future development of the northwest will be largely affected by their prosperity or adversity. Therefore, in considering this question, we are not dealing solely with the lumber industry, but with a business which directly and seriously affects the whole social, industrial, and commercial life of the northwest.

Early Mill Operations in the Northwest.

Mr. Edwin G. Ames, Manager of the Puget Mill Company, one of the oldest lumber concerns on the coast, gives a graphic description of the early life of the industry in the northwest. His mill was originally located on the site of the present plant, in 1853. The timber and its proximity to water controlled the location. Prior to the advent of the first railroads in 1883, the only markets open to the mill operator were either local or such as could be reached by water. Indeed, it was not until 1887 that the first through transcontinental train reached Tacoma, coming directly across the Cascade Mountains. In those early days the mill owners not only manufactured the log into lumber, but were ship owners and operators as well. They swept the seven seas in search of business, and it was these pioneers of the industry to whom the honor is due of carrying "Oregon Pine," as it is generally called, to the uttermost parts of the world, and of establishing for it a character for merit which still persists. The Puget Mill Company at one time had a fleet of 16 sailing ships of its own engaged in trade between its mill and ports throughout the world (Rec. p. 24). Its method of conducting business was typical. The millman was manufacturer, trader and sailor. Time has, of course, changed the methods of conducting foreign

business in the lumber industry as in all others; but at that time, in lumber as in other trades, the Yankee skipper and the stars and stripes nobly represented abroad all that was best in the commercial life of our country.

During this early period British Columbia was almost a wilderness—a fact which in a degree explains the start we secured over it in the offshore business. Timber was a drug on the market, if the word “market” could be applied to the conditions obtaining, and everybody—government, state, and individual—hailed with joy an opportunity to dispose of it at any price. In many places it was worse than a drug—it was a positive handicap to the pioneer trying to carve out of the wilderness a home for himself and his family. The removal of a tree meant heavy labor and much time, yet they had to be removed in order that the soil might be cultivated and the family might survive. It is, therefore, a matter neither for wonder nor for condemnation that forests were not looked upon then as they are today. Many who consider and discuss the subject of forest conservation in the West apparently have no conception of what that part of the country was like when the pioneers first brought it under our flag, or of what they had to endure in order even to live. For the same reason much unjust condemnation is indulged in today because modern conditions are made a yardstick to measure the necessities of half a century ago.

Railroad Development in the Northwest.

On September 10, 1883, at Portland, was celebrated the opening of the first through transcontinental line to the northwest. This line operated between St. Paul and Portland and was composed of the Oregon Railway & Navigation Company and the Northern Pacific Railroad Company, whose lines met at Wallula, Washington. Direct connection was first made with Tacoma in October, 1884, through the use of a large ferry plying from Goble on the Oregon side of the Columbia River to Kalama on the

Washington side. On November 24, 1884, connection was made at Huntington, Oregon, between the lines of the Oregon Railway & Navigation Company and the Oregon Short Line Railroad Company, opening a through route to Omaha and thence east. On July 3, 1887, the Northern Pacific operated its first train over its own rails across the Cascade Mountains to Tacoma. During all of this time, and before, a railroad had been in operation down the Willamette Valley as far as Roseburg, and was finally extended to a junction with the Southern Pacific Company, thus making a rail route to San Francisco and thence east and south.

During this period there was no marked development in the lumber industry. Rail rates were high; and as markets reached by rail were at long distances it was hopeless to attempt to compete in those markets with the forests of the north or south. Finally, in the latter part of 1892 or very early in 1893, the Great Northern reached Everett and shortly thereafter Seattle. This date marks the real birth of the industry in the northwest. Mr. James J. Hill saw clearly not only the value of the growing timber as a railroad asset but also the necessity of securing a market if this asset was to be made available. Accordingly, on February 20, 1893, the following rates were established from Pacific Coast territory west of the Cascade Mountains generally:

Gt. Northern to St. Paul..40 cents per hundred

North. Pac. to St. Paul..40 cents per hundred

Union Pacific to Omaha..50 cents per hundred

The rates in effect immediately prior to this date, over the Northern Pacific and Union Pacific, were 55 cents per hundred. As 10 cents per hundred on green lumber amounts to \$3.30 per thousand, the difference caused by the change is obvious. The shingle rate was 10 cents per hundred higher than the lumber. The development of the industry in Washington was much more rapid than in Oregon, owing to the more general application of the

rate named, and the fact that the rate was 10 cents per hundred pounds less than from Oregon points, except Portland, which also enjoyed the rates named by the Northern Pacific.

At this time, for obvious reasons, stumpage was of little value, and manufacturing was crude compared to present day operations. Surprising as it may appear, it was not until 1899 that, except for local use, lumber manufacturing commenced in the Willamette Valley, and it was generally believed that timber there was fit only for the crudest uses, such as railroad ties, etc.

Distance From Markets.

The industry is of comparatively recent origin in the northwestern states, and this section of the country is so situated geographically as to create peculiar problems. The principal rail market is 2,000 miles and more to the east of the producing territory, and the freight rate generally equals and often exceeds the value of the manufactured product. The California market—a valuable one—averages a thousand miles distant whether by rail or water, while thousands of miles of ocean separate the producing territory from either the foreign markets or the eastern coast of the United States, on water-borne shipments.

National Forests.

The standing timber belonging to the Federal Government in the three northwestern states is estimated to amount to 288,400,000,000 feet, and the acreage within these forests at 46,566,931 acres (Bureau of Corporations Report, 1909). While these forests were originally set apart as reserves for future use, owing to causes not necessary to discuss at this point, the original purpose has been more or less modified, until now their operations figure quite largely in the lumber industry; and they are a factor which must be reckoned with, particularly west of the Rocky Mountains.

Location of Timber.

The timber in the northwest is found in the coast region on and west of the Cascade Mountains, in the Willamette, Umpqua, and Rogue River Valleys, on the eastern slopes of the Cascades, and in the mountainous regions of eastern Oregon, Washington, Idaho, and western Montana. Much of this timber, as has been pointed out, is in the National Forests and under the Forest Service; stumpage in large quantities is being sold out of these forests, and the Forest Service is promoting such sales. As we have said, this situation is not found to any considerable extent elsewhere in the United States, and no fair solution of the problem under review can be reached without taking it into account.

Canadian Competition.

To the north an active, virile commonwealth, producing the same commodity and competing in the same markets, is aiding its own lumber industry in every reasonable way. British Columbia competitors enjoy not only the same rail rates to the markets in the United States, to which fact reference has been made, but by reason of the operation of our navigation laws such competitors can charter ships under any flag in normal times for delivery at any port in the United States on the Atlantic coast at from \$2.50 to \$3 per M feet less than can the shipper in the United States. Some preferential tariffs are now in effect between Canada and other British Colonies, and the establishment of such tariffs between all the British possessions are being urged with vigor.

The Export Trade.

In the past the Pacific Coast states have done by far a greater export business than has British Columbia. It must not be assumed, however, that this condition will continue unchanged. This phase of the subject will be elaborated later.

The war, while affecting this country as all others, has necessarily borne harder on Canada than on us. But some day—and God speed the day—the war will end, and it may be accepted as a certainty that everything an intelligent government can properly do will be done, by Canada and by every other country engaged in this war, to rebuild and reconstruct their industries, and to heal their commercial wounds. It would, therefore, seem that ordinary prudence and business sagacity should impel the government of the United States in like manner and with like persistency to aid, foster and further its own industrial and commercial interests.

Growth of Business.

Growth was rapid; and competition, not only between local mills, but also with woods from other parts of the country, was keen enough after the business got a fair start. For a long time a donkey engine, a circular saw, and 160 acres of stumpage was all one needed to become an operator. This condition could not and did not tend to stability in the trade, increase of price, or limitation of output, or permit of any real control of the industry by those engaged in it.

Public Interest.

This matter is before the Commission on no complaint under the law—it is far broader and deeper than that. It is based on the fact that the industry is of such magnitude and its operations so widespread, its conduct affects so large a number of people, and the basic element on which it is founded, a natural resource whose use and conservation is of such national consequence, that the question is to some extent at least charged with a public interest. We have heretofore set forth the purely commercial importance of the industry. On its face the conduct of any industry that represents an investment of nearly twelve hundred million dollars, employs directly nearly eight hundred thousand people, and produces over

eleven hundred million dollars' worth of manufactured product annually, is more or less a matter of real public concern. When, in addition to this, it appears that by far the larger part of the value of the product represents labor, then—if the welfare of those whose toil is of concern—such an industry is surely entitled to consideration, on this last ground if on no other. It is not deemed necessary to elaborate this phase of the matter. The interest of the public in the questions here presented and the need for constructive thought in dealing with them are too obvious and too urgent to need the support of argument.

Future Development of the Industry.

Is the lumber industry of the future to be composed of many small and widely scattered units, or will the tendency be toward large scale operations, in which not only the log will be transformed into lumber, but waste will be utilized in by-products? Consideration of this question leads to the conclusion that, while by reason of the nature of the business there will always be a considerable number of small plants, economic laws will ultimately compel in some sections large scale operation with a sufficient supply of standing timber to justify the fullest utilization of the log. It is not uncommon, even now, to find saw mills not only without dry kilns, but even without the facilities for working the green lumber. The planing mill was at one time entirely distinct from the saw mill, and even yet the door factory is generally conducted as a separate plant. There is but little effort or opportunity to utilize what might be termed saw mill waste; yet there would seem to be no good reason why this waste,—slashings, small wood, and stumps,—should not be utilized in by-products, such as wood pulp, charcoal, turpentine, creosote oil, tar, and pitch. Obviously, no small business could conduct such operations; yet, looking into the future, it is difficult to see how, with constantly increasing competitive pressure not only from other woods, but also from substitutes, the industry can be placed on a sub-

stantial basis unless in the heavily forested sections it is conducted on a large scale. Even now the waste in the best conducted operation is great, and the problem is and always will be to secure the greatest use of the raw material—the log. Moreover, in the manufacture of lumber, the operations should be carried on as closely as possible to the tree. The consumer is quite as interested in this as is the manufacturer. Freight rates on raw material to be remanufactured at a distant point, with the attendant waste in the manufacturing process, impose an unnecessary burden on the consumer. This situation limits markets and handicaps the industry in its efforts to stem the rising tide of substitutes.

An ideal operation would be one that would utilize the log and every possible part of it in the mills and ship and distribute only the finished product, whatever that product might be. Waste of raw material and waste of transportation would in this way both be saved; but plants capable of such efficiency cannot be small ones. This method would undoubtedly conserve the timber supply and lead to the most complete use of the forest. Paradoxical as it may seem, it would also tend to lower the cost to the consumer and afford better and steadier profits to the operator. This would be because of the more complete use of raw material, wider economy, modern distribution and the saving in transportation. Such a mode of operation would place the industry on a much more stable basis; and where, as in the northwest, it is the dominant industry, the effect would be far reaching, and would result in placing other businesses, as well as the communities which are largely dependent on lumbering for their prosperity, on a sure foundation. In other words, if we are correct in our premises, the general effect of operating through larger units in the heavily timbered sections would be beneficial from a community standpoint.

The consideration of other factors leads to the same conclusion. This is particularly the case on the Pa-

cific Coast, where conditions vary from those in other sections of the country. Logging is generally, if not always, carried on in more or less mountainous sections, involving large plants and difficult operation. Wide distribution of the product is a necessity; and in order to secure the best results considerable stocks must be carried, and the best merchandizing effort will be required to place the lumber industry on terms of equality with its competitors.

There is nothing new in these suggestions; and it is only because a certain amount of prejudice exists against big business, simply because it is big, that we make them. Bigness is not synonymous with badness, and if our study leads to certain conclusions it is but fair that we should state them. Neither do we mean monopoly when we speak of big business. The fact that economic laws have led to the adoption of larger and more complete units in almost every industry does not imply that only one vast unit would be the ideal condition.

There are scores of illustrations which might be cited to support this statement. The inevitable working of economic law in all successful business has constantly tended to bring about gradual expansion, departmentized manufacturing, better distribution and great utilization of new material. The result has been a steady improvement in the quality and diversity of the product, and a general lowering of price to the ultimate consumer. Indeed, in the face of experience and of a knowledge of the facts surrounding the operation of this industry, the burden of proof would seem to be on those who contend that the ordinary and accepted rules of business will not operate in lumbering as in other industries.

This is not to say that there is no place in the scheme of things for the small mill, for there is. No more conclusive evidence of this is needed than the facts disclosed by the report issued by the Department of Commerce and Labor, May 19, 1911, entitled "Forest Products of the United States," wherein it was shown that in 1909 there were reported 42,041 saw mills, big and little, in the Unit-

ed States, and even a greater number was reported for 1910. The 1909 report shows that, of these, 28,459 mills each cut less than 500 M feet per annum. Such states as New York, Massachusetts, Pennsylvania, and others had and have a large number of saw mills which serve purposes useful to the counties in which they are located. But it is nevertheless true that the small mill, having no serious problems connected with raw material or distribution, can only fit the place to which it is adapted.

It is certain that the entire public is interested in the true welfare of this business. The only problem is to find the path which leads to that greatly desired goal. Those who would tear down a commercial structure (the result of years of experience and effort) must assume the task of creating something which will take its place and be a better structure than the former one. The standing timber must be utilized. Under what methods or arrangements can it best be gotten out and made useful to mankind? That is the real problem; and it is particularly pressing in the Pacific Northwest, where for many years to come the lumber industry must in the nature of things remain a matter of gravest concern.

PARTICULAR SITUATIONS. DOMESTIC.

(1) *Special Difficulties.*

During the period under review the industry passed through many trials and vicissitudes, not the least of which were advances in rail freight rates to eastern markets. This disturbed established conditions, affected markets, and demoralized trade. The impression prevailed that the manufacturer was making undue profits and robbing the consumer. No consideration was given to the enormous difference between the cost of getting the lumber to market from the Pacific Northwest and that of marketing it from Michigan, Minnesota, Wisconsin, and other nearby points, nor to the generally increased

cost of production. If these hearings have no other effect, or serve no other purpose, it is hoped that the facts elicited by them will serve to set the public right on some of these questions.

In the past fifteen years very many substitutes for lumber have been found and their use pushed with all the resources and ingenuity at the command of those exploiting them, with the result that the lumber industry is confronted not only with a low price level but also with diminishing consumption.

The lumbermen of the Pacific Coast looked to the opening of the Panama Canal to furnish substantial aid in the way of an opportunity for water distribution; but it is history that although the Panama Act, as passed, relieved vessels engaged in the domestic trade from the payment of tolls, the law was subsequently repealed and an equal toll charged all vessels no matter in what trade engaged. The war, owing to the effect it has had on the supply of tonnage, has necessarily interfered with the use of the Canal, and thus far the effect of the tolls charged has not been felt in connection with the competition between British Columbia and the Pacific Coast states. It is certain, however, that with the restoration of peace and the opportunity afforded British Columbia to use the vessels of the world between their ports and ports of the United States, while the United States manufacturers are limited to vessels constructed in this country, the toll will be a considerable handicap in meeting the competition of British Columbia in Atlantic Coast markets. The war has also brought to the lumberman, as well as to others, a realization of our weakness in respect to a merchant marine. A nation of one hundred million people found its trade paralyzed at a moment's notice, because the transportation of its products had been largely left in the hands of other nations. Over night we awoke to the fact that, by ourselves, we are without means of marketing our products.

Notwithstanding the discouragements and difficulties

to which we have referred, it is but fair to the men engaged in the lumber industry to say that they have constantly struggled to solve the problems confronting them. Growing taxation on timber lands, increased costs of operation, internal competition, have all to a greater or less degree been met by improved methods in operation, both in the forest and in the mill. It is not, therefore, as men who have done nothing to help themselves that they appear before this Commission, but rather as units in a vast industrial system involving problems of nation-wide significance and effect. It is in this spirit that they have come to the tribunal created by law to hear them, whose duty it is to aid and encourage in all lawful ways the industry and commerce of the United States; and have frankly and freely laid the facts before it.

A consideration of the causes leading to existing conditions may be briefly summarized as follows:

First—Those inherent to the industry.

Second—Those more or less under the control of those engaged in the industry.

Third—Those over which those engaged in the industry have no control.

We do not minimize the difficulties to be overcome, nor overestimate what should or might be done by the government, but it is believed that closer co-operation between the appropriate departments of the government and the industry in general, as well as co-operation between those engaged in the industry, is necessary to secure the best results. This latter element, owing to the nature of the business and its widely scattered and numerous units, will doubtless be difficult to secure; but in this as in every other business only proper co-operation will produce the best results. Without attempting at this time to point out each and every way the government may properly aid the industry, it is believed that, with a clear understanding of the facts and of the necessities of this and of all other industries, means will be found to solve

some of the problems—problems which are world-wide in their significance and extent, and which flow from relationships and competitive conditions of international scope.

(2) *Prices.*

With the growth of the business stumpage values increased, with corresponding increases in carrying costs. We will not enlarge on the prevalence for a number of years of what might almost be termed a mania for the acquisition of timber lands—a condition caused by the idea then prevailing that the standing timber of the United States would be exhausted in the comparatively near future. Nor is it necessary to dwell upon the effect this speculation had upon the fortunes of some individuals. That section of the Pacific Coast west of the Cascade Mountains, followed later by the Willamette Valley, the eastern parts of Oregon and Washington, Idaho, and western Montana, was soon producing very considerable quantities of lumber. Prices gradually advanced, and, in 1906-1907, owing to the enormous and sudden demand caused by the great San Francisco fire and the Valparaiso disaster, as well as the inability of the railroads to move the tonnage to market, they reached their zenith.

During this same period, and until 1910, the west was being rapidly settled, railroad building was being pushed, and there was a good demand for lumber from settlers and for construction purposes generally. These conditions led to the rapid establishment of many new plants with greatly increased output; and, while prices were high, profits generally were not great, owing principally to the lack of transportation and the higher cost of production. In other words, by no means did all the advance go to the manufacturer. Since 1906-1907, with the exception of the spring of 1913, prices have steadily declined, until at the time of this investigation (the summer of 1915) lumber and its products have generally been selling at and below the cost of production. Such a condition is bad and unsound from every standpoint, and, in view of

the magnitude of the industry, vitally concerns not only those directly engaged in it, but also the nation at large.

A partial failure of a grain crop is deplored as a national calamity. A shrinkage in the price of cotton, or the inability to market it, is quite properly treated as a national question. Such situations always secure the help of every branch of the government which can properly act in their behalf. Yet it would sometimes seem as if, owing probably to a lack of knowledge of the industry and of its relation to the general business of the country, the conditions in the lumber trade are of but little consequence to any except those engaged in it.

(3) *Cost of Production.*

(a) *In General.*

Exhibit G. introduced at the hearing at Chicago (p. 103) in connection with the statement of Mr. E. B. Hazen is a composite statement of the cost of manufacturing lumber, embodying the figures of 20 rail and rail and cargo mills in Washington and Oregon for the year 1913. It was prepared by a certified public accountant in conformity with the views of Mr. Cary representing the Forest Service. It is accurate and representative. It is set out both in the printed report of the Chicago hearing and as Appendix B of this brief, and is, we believe, the first attempt of the kind to secure what might fairly be termed the average manufacturing cost of producing lumber in the Northwest states. The statement sets out in detail cost figures and explanations thereof. At this point we give the totals only; yet certain facts which should be borne in mind in a consideration of the tabulation are as follows: (Chicago Rec., p. 105).

Cost of Logs and Cost of Selling are not included, excepting that Salaries and Sundry Expense cover the usual handling of sales in the office. The cost of commissions, separate sales offices, traveling salesmen, etc., is excluded. The Yard cost absorbs the

handling of lumber sold at retail, the extra cost of which is small in a composite statement.

Lost accounts, which were not included in the cost, averaged $6\frac{1}{2}c$ per M on the cut for the rail mills and $5c$ per M for the cargo and rail mills. This included losses on local or retail sales for both classes of mills. It may be that there were further losses in the latter class, on accounts transferred to San Francisco.

Shipping expenses not common to all the mills have been excluded, such as scow rent and towing, switching to main line of railroad, etc.

Interest. To the "Manufacturing Cost" there is added the cost of the use of the money tied up in plant, logs, lumber, customer's accounts, etc., after allowing for amounts owing for pay-rolls, logs, and supplies. The portion of this money which is supplied by the stockholders might be invested in interest-paying securities if it were not laid out in the saw mill business, and the portion which is borrowed requires a direct cash expenditure for its use (interest). Therefore, while technical accounting would exclude interest from the manufacturing account, it is in fact a cost of conducting the business and is here shown in the cost per M feet of lumber cut. The rate of 6% is used in the statement, though money to carry stock and accounts costs 7% and 8%.

It will be noted that for convenience the rate per M for interest on logs and cash is the same for all of the mills, though the cargo shipping mills probably require a larger stock of logs per M for their orders than do the rail mills.

Shut-downs and Night-runs. It will be observed that the average run of the rail mills furnishing statements was 254 10-hour days, and of the cargo and rail mills 329 10-hour days. The former class included the shortest run of all of the mills, and the latter class, so far as the data at hand indicates, included all of the night-runs.

Obviously the average cost per M for General Expense and Interest on Plant is increased by shut-downs and reduced by night-runs. A comparison of costs should take this into consideration. Depreciation is affected similarly, unless based on the quantity of lumber cut.

* * * * *

Depreciation. Depreciation in this statement is practically a composite figure of the depreciation found on the mills' books. The basis in some instances is a percentage of the plant value, in others is a lump sum, and in still others is a rate per M feet of lumber cut. The question of a proper charge for depreciation in the composite statement is still open for consideration.

Repairs. It is probable that some repair-labor has been included in the operating-labor accounts, particularly in the yard, where the time of men making repairs is not always separated from the operating labor. In some instances it was found that planking, spikes, etc., used in yard repairing had not been charged on the books.

Exhibit E. page 100 (Chicago hearing), Appendix B. of this brief, is a statement of the "Average Cost of Delivering logs from tree to Puget Sound," embodying the figures from twenty camps prepared by representatives of the Forest Service. The figures in the statement are detailed, but we use the totals, as in the case of the tables showing the manufacturing cost. The following facts in considering the table should also be borne in mind: (p. 101, Chicago hearing.)

This statement does not include the cost of stumpage, interest of any kind, discounts on logs sold, towage to mill, or taxes on standing timber. It is intended here to include only the cost of transforming, transporting, and sorting the logs, taking them to the point of sale for straight loggers. Stumpage and the taxes on timber will be handled in another section of the work. Discounts have been looked on as more closely related to realization than to cost of logging. Interest, whether on capital invested or on borrowed money, complicates the matter of cost and is most clearly considered as related to profit.

1913.

Cost of Manufacturing Lumber per M Feet.

| | Rail Mills. | Cargo and Rail Mills. |
|------------------------------|-------------|--------------------------|
| Boom and Mill..... | \$2.129 | \$2.031 |
| Planer and Kilns..... | .925 | .653 |
| Yard | 1.256 | 1.293 |
| <hr/> | | |
| Total Direct Operation..... | \$4.310 | \$3.977 |
| General Expense | .867 | .690 |
| Depreciation | .480 | .397 |
| <hr/> | | |
| Total Manufacturing Cost.... | \$5.657 | \$5.064 |

1913.

Average Cost Delivering Logs from Tree to Puget Sound.

| | |
|-----------------------------|---------|
| Total Direct Operation..... | \$4.782 |
| Depreciation | .306 |
| General Expense | .340 |

Total Average Cost per M log
scale\$5.428

Total Manufacturing and Logging Cost.

| | Rail Mills. | Cargo and Rail Mills. |
|---|-------------|--------------------------|
| Total Manufacturing Cost..... | \$ 5.657 | \$ 5.064 |
| Total Logging Cost (Inland Mills) | 4.42 | *5.13 |
| <hr/> | | |
| Total Manufacturing and Log- ging Cost | \$10.077 | \$10.194 |

In arriving at actual manufacturing cost we have allowed for over run on log scale and stated cost to rail mills as accurately as possible.

It will be noted that interest on plant, equipment, capital, stumpage, discount on logs sold, taxes on stumpage,

* Puget Sound cost less over run 12½ per cent, after adding towage of 35 cents to \$5.42.

and the stumpage itself are not included in this statement. Commissions, expense of separate sales offices, traveling salesmen, etc., are also excluded. In addition, shipping expenses not common to all the mills, such as scow rent, towing, switching to main line of railroad, etc., have not been taken into account. Another very important item omitted is towage to the mill. The cost of towage varies with the distance, but a conservative figure would not be less than 25 cents per thousand.

(b) *Selling Prices.*

At page 102 of the record (Chicago hearing) appear reports showing net average selling prices of six cargo and rail mills and six all rail mills for years 1910 to 1914 and six months of 1915, all years inclusive. The cost of selling, commissions, discounts, etc., are deducted from gross selling prices, leaving net results.

*Net Averages Selling Prices Per Thousand
Cargo and Rail Mills.*

| 1910 | 1911 | 1912 | 1913 | 1914 | 1915—6 months |
|-------|-------|-------|-------|-------|---------------|
| 14.30 | 12.35 | 13.21 | 13.64 | 11.18 | 10.90 |

This shows an average price per thousand for the period of 5½ years of about \$12.60 per M.

| | |
|--|----------|
| Total Manufacturing and Logging Cost.... | \$10.194 |
| Towage estimated | .25 |

Total Producing Cost.....\$10.444

It will be observed that not considering stumpage and other enumerated items for the entire 5½-year period the cargo and rail mill received on an average a price of but \$2.16 per thousand over cost of *production only*, and in the first six months of 1915 but .46 cents per M. over producing cost.

*Net Average Selling Prices per Thousand.
Six All Rail Mills.*

| 1910 | 1911 | 1912 | 1913 | 1914 | 1915—6 months. |
|-------|-------|-------|-------|-------|----------------|
| 14.45 | 12.78 | 13.69 | 12.73 | 11.29 | 10.06 |

This shows an average price per thousand for the period of 5½ years of about \$12.50 per M.

Total Manufacturing and Logging Cost.....\$10.077

We have added nothing for the rail haul from logging camp to mill, as it is not improbable that the decreased cost of logging for interior mills over water mills justifies the omission.

In the case of the rail mills, and not considering stumpage and other enumerated items for the 5½-year period, it appears that such mills received \$2.42 a thousand over cost of production only, and in the first 6 months of 1915 received .02 cent less than producing cost.

It further appears from an examination of the detailed statements that interest at the rate of *only 6%* on manufacturing plant, logging investments, lumber stock, log stock, accounts receivable, and current cash, amounts to \$1.02 per M for rail mills, and 93 cents per M for cargo and rail mills. It will be noted that the interest is figured at 6%, which is a lower rate than is generally available in the west for loans for this purpose.

(c) . *Investment.*

Considering now the value of the raw material, a conservative figure for the years under review would be from \$1.50 to \$2 per M. In estimating the cost of plants on the Pacific Coast it has been found that \$2,000 for each M feet daily cutting capacity is fairly accurate, and \$1,500 for each M feet daily logging capacity. Based on these estimates, which are accurate enough to be relied on by those engaged in the business, the following tabulation would show the average amount of investment in the mills whose cost figures were obtained.

Rail Mills.

| | |
|---|-----------|
| Mill | \$200,000 |
| Logging Plant | 150,000 |
| Stock of lumber and logs, accounts, working capital, etc..... | 200,000 |
| | <hr/> |
| | \$550,000 |

Rail and Cargo Mills.

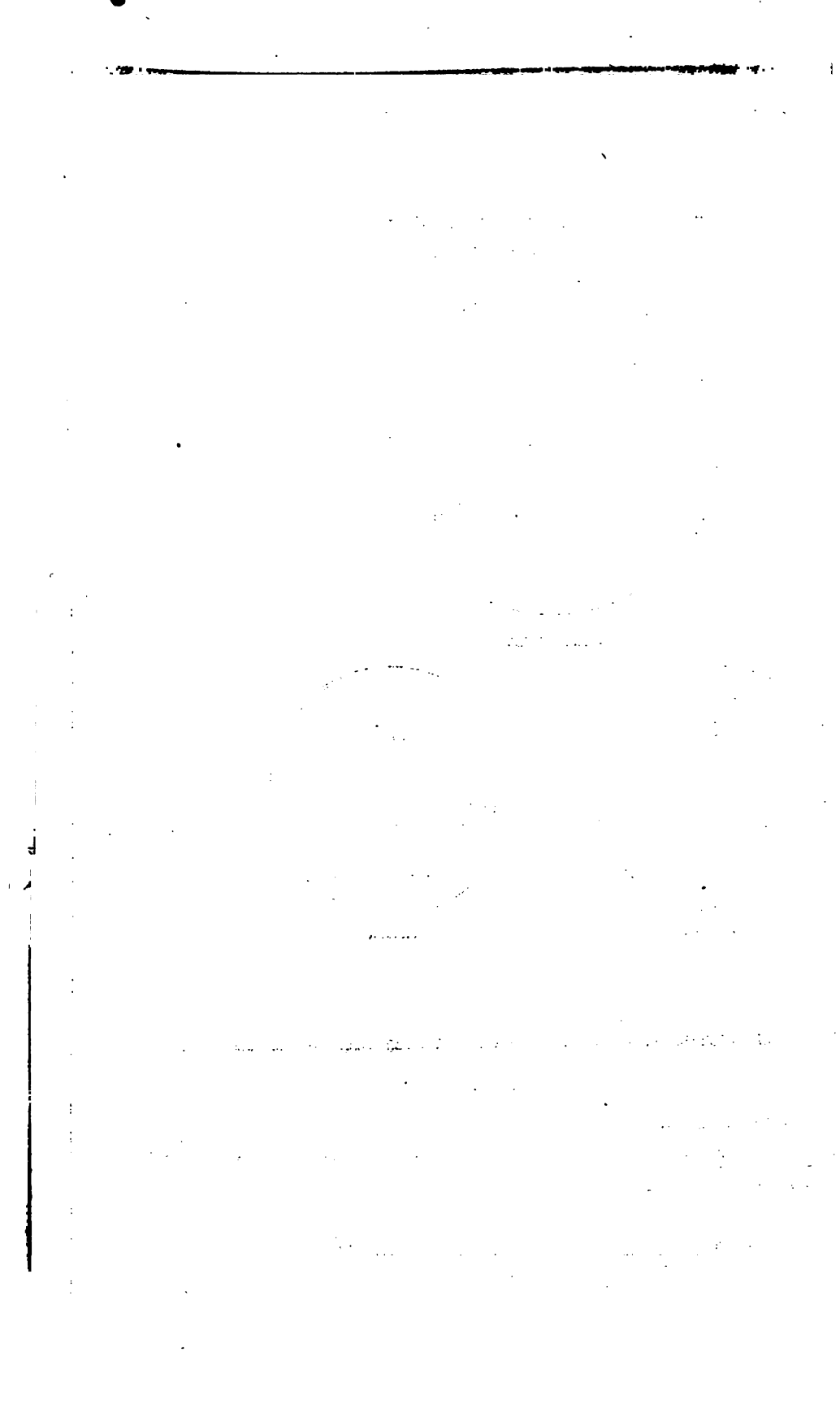
| | |
|--|-----------|
| Mill | \$270,000 |
| Logging Plant | 202,000 |
| Stock of Lumber and Logs, etc., as above.. | 200,000 |
| | <hr/> |
| | \$672,000 |

It will be noted that Mr. Cary's figures show in plant and working capital for logging \$175,000, so that the figures given will not be found to be excessive. Moreover, on the Pacific Coast, a large percentage of plants feel it absolutely essential, in order to justify investing this amount of money, to have a timber supply to cover from 15 to 20 years' cut. The amount of the investment in timber for the average mill under review would be at least \$1,000,000.

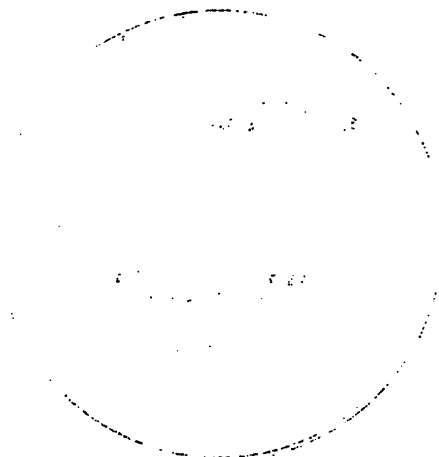
Uniting the figures we have analyzed, but omitting some elements of cost above mentioned, we reach this final result:

(d) *Summary of Tables.*

| | Rail Mills. | | Cargo & Rail Mills. |
|--|-------------|-----------------------|-------------------------------|
| Average Annual Output. | 25,000,000 | | 45,000,000 |
| Total Manufacturing Cost | \$5.657 | } Mr. Cary's figures. | \$5.064 |
| Total Logging Cost.... | 4.42 | | 5.13 |
| Towing | | | .25 |
| Stumpage | | | 1.50 |
| | <hr/> | | <hr/> |
| | \$11.577 | | \$11.944 |
| Interest on plants, etc., 6% on estimated value \$550,000..... | 1.32 | } Mr. Cary's figures. | on est. val. \$672,000 .90 |
| | <hr/> | | <hr/> |
| | \$12.897 | | \$12.844 |



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| | | |
|---|-----------------|-----------------|
| Profit on investment in plant and working capital involved (only excluding timber) at say 12% | 2.60 | 1.79 |
| Total | <u>\$15.497</u> | <u>\$14.634</u> |

The reason the cargo and rail group require a less amount to secure the same return on plant investment than the rail mills is that the tabulations show they have less investment compared to their capacity. On the other hand, it would be more accurate to consider stumpage for this group as costing at least \$1 per M more than for the inland group. Trees tributary to tide water are worth \$1 per M more than the same quality of stumpage inland.

To secure, however, a manufacturer's profit of 12% in a business which, to put it mildly, is a hazardous one, the manufacturer must receive in a rail mill not less than \$15.50 per M feet and in a cargo and rail mill not less than \$14.63 per M feet, valuing stumpage at \$1.50 per M (and most of it has cost more). The investigation conducted by the Forestry Department in British Columbia substantiates these figures, (Chicago Rec., p. 93) and it is our belief that the investigation conducted by our Forestry Department will do the same. It cannot very well do otherwise, for the facts are as given. This is not to say that the figures of particular mills might not vary; but taking the industry on the Pacific Coast as an average the figures will be found substantially accurate.

(e) *Confirmation of Price Movement.*

Confirmation of these figures is found by independent comparisons.

The chart introduced by Mr. Babcock at the Tacoma hearing (p. 56), and reproduced here, shows in graphic form the situation as it has existed since 1912 in the states of Washington and Oregon. It is a cut and shipment report from 80 identical mills, showing the relation of ship-

ments and prices to the cut from January 1, 1912, to and including the month of June, 1915. It also shows the production, which will be referred to later.

This chart shows these price lines. The top line is No. 2 flooring. In January, 1912, it sold for about \$19.50. It gradually advanced until March, 1913, holding at \$26 until May; and it has declined steadily since, its price on June 1, 1915, being \$17 per M or \$2.50 per M less than on January 1, 1912. The lower line represents the price movement of No. 1 common. On January 1, 1912, it was worth \$6.75 per M. It moved up, then down, and on June 1, 1915, was worth \$6.50 per M. The light line in the middle represents the average selling price of all kinds of lumber during the same period. The average price was about \$10.75 on January 1, 1912. It advanced, and then fell until on December 1, 1914, it was a trifle under \$9 per M. For some reason this line ends at that point. Possibly some of the mills thought it time to quit reporting if there was to be no bottom, for which action they can hardly be blamed. We have all found it much pleasanter if not easier to make out reports showing gains instead of losses, and the mill men have certainly had a long down hill slant to follow.

The effect of the law of supply and demand is very noticeable in this connection. Except on one occasion, for which there was a special reason, an increase of the supply led to an immediate response in the form of a decline in the price. This is very significant considered in its relation to the problem of production and its possible control.

(f) *The Spokane Hearing.*

The hearing at Spokane showed exactly the same condition as to cost of production and prices as was disclosed in Oregon and Washington.

Mr. John R. Toole presented a statement compiled by officers of the Forest Service showing the composite cost of operation of mills in what is termed the Inland Empire,

(that is to say, eastern Washington, eastern Oregon, northern Idaho, and western Montana) for the years 1908 to 1914, both years inclusive. The number of mills included varies from 6 in 1908 to 14 in 1914. These mills, being the larger manufacturers, were representative. The tabulation covers cost of production f. o. b. car, except taxes on timber land. It does not appear whether interest entered into the cost. The tabulation (Spokane Rec., p. 12) is as follows:

Cost of Production—Inland Empire.

| Year. | Stumpage cost log. | Logging cost log. | Pond to Platform. | Piling & Yd. Expense. | Office Sal. Plant Tax. | Pile to car Piling. Shp'g dr. kin. | Selling. | Total cost of producing lbr. f.o.b. cars, mill inc. stmpg. but excluding timbr. taxes. | |
|-------|--------------------------|-------------------------|----------------------|--------------------------|---------------------------|--|----------|--|------|
| 1908 | \$2.12 | \$5.50 | \$1.34 | \$.81 | \$.89 | \$1.71 | \$.37 | \$13.15 | 1908 |
| 1909 | 2.66 | 6.13 | 1.43 | .85 | .95 | 1.50 | .25 | 14.28 | 1909 |
| 1910 | 2.30 | 7.03 | 1.79 | .74 | .82 | 1.51 | .56 | 15.17 | 1910 |
| 1911 | 2.38 | 7.25 | 1.77 | .79 | 1.10 | 1.56 | .70 | 15.92 | 1911 |
| 1912 | 2.40 | 7.55 | 1.58 | .80 | 1.00 | 1.41 | .58 | 15.50 | 1912 |
| 1913 | 2.60 | 6.87 | 1.54 | .82 | .95 | 1.52 | .68 | 15.22 | 1913 |
| 1914 | 2.14 | 7.31 | 1.52 | .76 | 1.02 | 1.49 | .74 | 15.18 | 1914 |

No tabulation of selling prices was filed, but the following figures were submitted. In 1913 the average price on all woods (the highest in the last five years) was \$16.03 per M (Spokane Rec., p. 13). The average selling price for the first quarter of 1915 was \$12.87 per M (Spokane Rec., p. 14).

According to a compilation of the Forest Service covering an average of 29 mills for the past six years, representing an average annual production of 816,000,000 feet, an average paid up capital of \$30,000,000, and an average borrowed capital of \$13,000,000, these mills earned for the six years on all capital an average of 1.49% which was insufficient to pay interest on the borrowed capital at 6% by an average of \$114,000 per year (Spokane Rec., p. 15). We are now averaging below the cost of production at least \$2 per M (Spokane Rec., p. 23).

A very interesting statement of increased cost of logging operations was given by Mr. Toole from actual figures in one of his own mills. The figures include stumpage and all costs into the mill, commencing in 1903. It is as follows (Spokane Rec., p. 19) :

| | | | | | | |
|--------|--------|--------|--------|--------|---------|--------|
| 1903 | 1904 | 1905 | 1906 | 1907 | 1908 | 1909 |
| \$5.71 | \$5.70 | \$5.50 | \$6.72 | \$8.29 | \$9.58 | \$8.64 |
| | 1910 | 1911 | 1912 | 1913 | 1914 | |
| | \$9.22 | \$8.39 | \$9.24 | \$9.61 | \$10.40 | |

A brief abstract of part of Mr. Toole's testimony is illuminating. Stumpage is figured at actual cost (Spokane Rec., p. 20). Some years' stumpage varied. Our own stumpage is figured at a dollar (Spokane Rec., p. 21). Difference in cost is represented by difference in cost of logging. The early logging was on the bank of the river; now we are 20 miles back. The actual cost of stumpage did not vary to exceed one dollar at the most. Increased cost of logging applies everywhere (Spokane Rec., p. 22). Does not know anybody in Montana who during 25 years has made any money running a saw mill. Such money as has been made has accrued from the enhanced price of stumpage (Spokane Rec., pp. 25, 26). We do not close down because we had better run and lose some money than close down and lose more (Spokane Rec., p. 26).

The following statement by Mr. Toole is also of moment (Spokane Rec., p. 8) :

"The Inland Empire embraces the pine producing territory east of the Cascade Mountains, including Eastern Washington, Eastern Oregon, Idaho and Montana west of the Rocky Mountain Divide.

"This territory has a timbered area of some 35,000,000 acres with a stand of approximately 300,000,000,000 feet made up as follows:

"42% Western Pine, 9% Idaho White Pine, 21% Red Fir, 10% Larch, 9% Pole Pine, 3% Cedar, 2% White Fir, 1% Hemlock.

“Of the 35,000,000 acres, 23,000,000 is in the National Forests, 4,000,000 is state and other public ownership and 8,000,000, or about 25% of the area, privately owned. The privately owned contains about 33% of the standing timber.”

In general, Mr. Toole's statement is not only conservative but pregnant with meaning. His statement and conclusions on distribution, actual production and capacity are very significant. These we will discuss later. The showing as to the area comprised in the National Forests in this section emphasizes the importance of the question of their disposition, as well as the relationship of that question to the industry at large.

The capacity of the mills now exceeds the consuming ability. Greater production would but increase the loss in money and the waste in the woods. If, under these circumstances, the policy be adopted of pushing the sale of timber from National Forests, it is not difficult to foresee the disastrous results, both to the Nation and to the industry, that will surely follow. If, as has been suggested by some, the government constructs and operates saw mills, the result will be equally certain and disastrous. The fact that no market exists which could absorb any such quantities of lumber seems not to have been considered by the proponents of this plan; the fact that the purpose of the National Forests is to serve as a reserve for the future also seems to have been forgotten; and the fact that a billion dollars has in good faith been invested by individuals all over the country in the lumber industry seems to some to be of no consequence. It would appear at times as if the lessons of the past have not yet been learned. In a nation's life fifty years is but as a day, and the nation's future is based very largely on the continuity and certainty of the supply of natural resources.

While we are all loyal to a democratic form of government, we must admit that it has its weaknesses, not the least of which are the desire to realize on everything at once and the inability to follow out to its logical end any

policy, no matter how patiently and carefully considered. Everybody has his own cure for every ill, and his cure is the only one; and, if it can secure votes enough, it will be adopted. Politics with us control too often the disposition of the most serious economic problems, and our lack of respect for authority and expert knowledge is proverbial. Indeed at times one would be almost justified in saying of us that as a nation we delight to do things differently, and to display our wisdom by showing a contempt not only for experience, but also for the student and his conclusions.

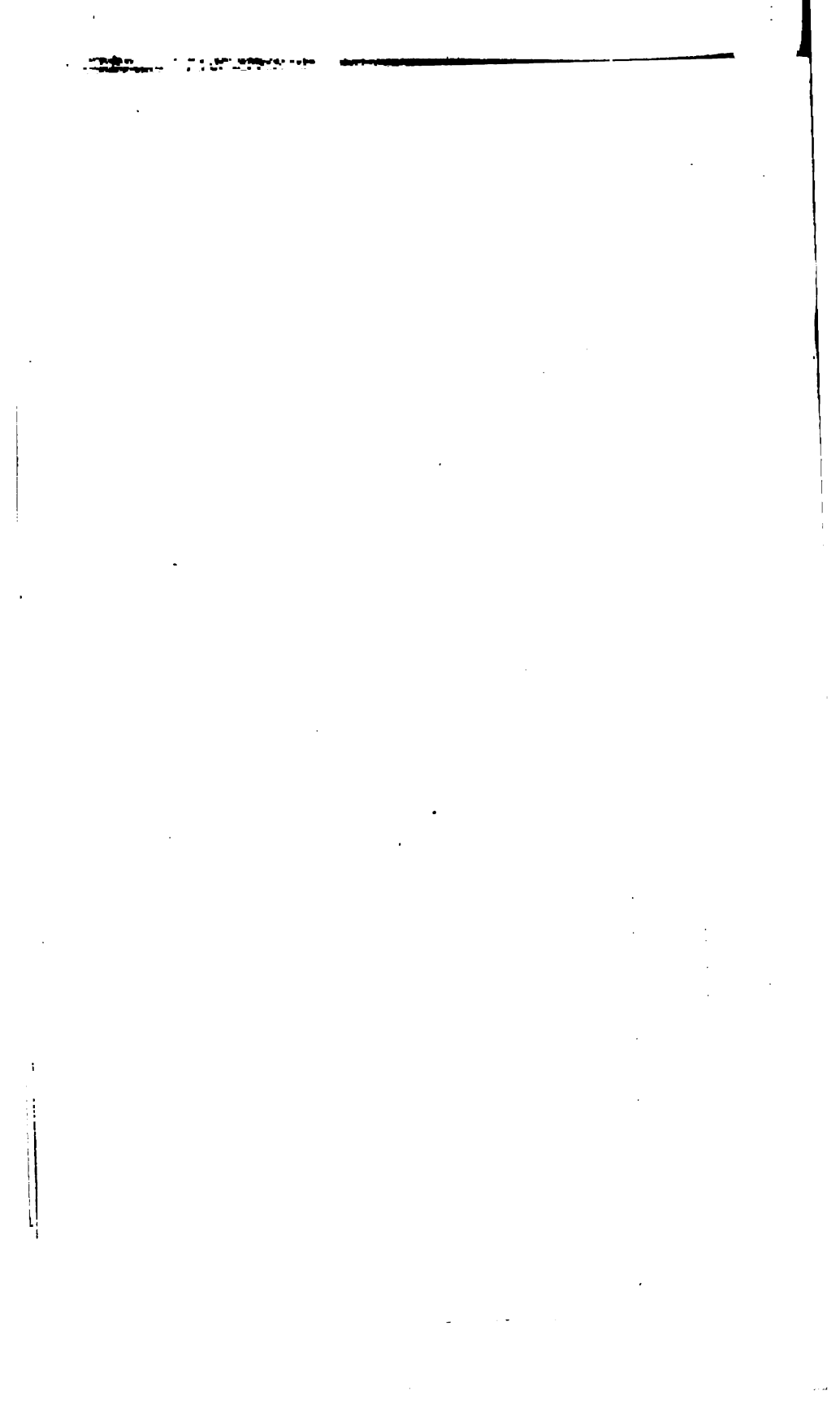
Either the Forest Service fills a want or it does not. Its service to the country either is of value or it is not. The conservation of a forest supply is either important to the nation or it is not. When, however, we conclude that the Forest Service is a real factor in the economic life of this country, that the conservation and preservation of the forests is a necessity, and that a policy based on these fundamentals should be adopted, then the least we can do is to carry such a policy out, looking not only to the present but also to the future. We fear some of the advocates of the immediate disposition policy overlook the results which their policy would entail, not only to the individual and to their own communities, but to the nation as well.

(g) *The California Conditions.*

Turning now to California we meet there the same situation as to cost and price as has heretofore been discussed. The most concise manner in which the facts can be presented is to quote directly from the record. At page 4 (Calif. Rec.) Mr. Selfridge said:

Owing to the lack of uniform cost systems, it has not been possible to compile figures showing the actual average costs of manufacturing and marketing for the entire industry, but the figures submitted are taken from a mill whose physical condition and organization are above the average; therefore they

[



should be slightly varied in order to show the situation as a whole. Covering a period from 1906 to the end of 1914, the cost of conversion, including logging, freight on logs, cost of manufacturing, insurance, taxes, interest on operating investment only, depreciation and general expense (excluding selling expense and stumpage), are as follows:

| Year. | Average Selling | |
|-----------|-----------------|---------|
| | Cost. | Price. |
| 1906..... | \$11.05 | \$15.11 |
| 1907..... | 12.85 | 17.34 |
| 1908..... | 10.91 | 14.23 |
| 1909..... | 11.53 | 13.30 |
| 1910..... | 11.36 | 13.91 |
| 1911..... | 11.87 | 13.22 |
| 1912..... | 12.50 | 14.54 |
| 1913..... | 12.45 | 15.40 |
| 1914..... | 12.95 | 14.79 |

I will also state here that the United States Forest Service has complete figures from this particular mill, and these submitted are in accordance with the figures furnished them.

Mr. Boyle: That does not include stumpage.

Mr. Selfridge: That does not include stumpage and the selling expense. Why these particular items were eliminated from the figures, I do not know, because I have not access to the figures, but those were given me. I will also file this chart.

Mr. Chairman: Mark that San Francisco Exhibit No. 1.

(See Exhibit, page 7.)

Commissioner Hurley: How do you arrive at your cost figures?

Mr. Selfridge: That I could not say, Mr. Hurley. They were arrived at through an accounting system and filed with the Forest Service, in line with the inquiry that is being made by the Forest Service on this Coast today.

Mr. Boyle: Do you know whether the Forest Service had access to the books of the lumber companies themselves?

Mr. Selfridge: I do not know.

Mr. Boyle: Do you know, Mr. Greeley?

Mr. Greeley: These figures were taken from the books of the companies by a representative of the Forest Service.

(h) *Yellow Pine.*

In the Yellow Pine section of the South we again find like conditions as to cost and price. The elaborate statistics prepared by Mr. Keith are printed in the record, pages 11 to 19, inclusive. From these based on the operations of 23 saw mill companies, the following facts appear:

1913.

| | |
|---|---------|
| Yellow Pine (23 Saw Mill Companies). | |
| Manufacturing Cost, exclusive of selling cost and interest | \$ 6.50 |
| Logging Cost, exclusive of selling cost and interest | 3.44 |
| Stumpage | 3.83 |
| | <hr/> |
| | \$13.77 |
| Interest—plants and working capital..... | .72 |
| | <hr/> |
| | \$14.49 |
| A profit on investment in plants and working capital involved excluding timber say of 10% would be per M..... | 1.12 |
| | <hr/> |
| Total | \$15.61 |

Selling Prices.

Less Costs of Selling.

| 1912 | 1913 | 1914 | Average |
|-------|-------|-------|---------|
| 15.03 | 16.04 | 13.02 | 14.67 |

The estimate of the amount of investment in plants, working capital, etc., was determined by taking interest charged in Mr. Keith's tabulations and capitalizing it.

Mr. Keith, in submitting these statements, among other things said: (Chicago Rec., p. 11.)

"Against the price of \$11.70, the amount realized for lumber in December, 1914, the cost for the manufacture of lumber in the year 1914 was \$14,495. Kindly note Exhibits Nos. 1, 2 and 3.

"I wish to invite your special attention to the practice of the average lumber operation in the South providing at least a ten years' supply of raw material behind its operations. In some instances, the amount of raw material behind the operation exceeds that just mentioned. On a ten years' basis of operation, it is necessary for the lumber manufacturer to liquidate 10% of his assets per annum, and in order for him to secure a 6% net return on his total capital invested, it is necessary for him to secure 27.2% on his cost of manufacture."

(i) *Hemlock.*

1915.

The figures submitted as shown in the record, page 154, are incomplete, in that they show no interest charges of any kind, thus making it impossible to work out a comparison on the same basis as for other sections; but otherwise it has been reduced to the same basis. The producing cost thus figured for the first six months of 1915 are as follows:

| | |
|--|---------------|
| Manufacturing Cost, exclusive of selling cost and interest | \$ 6.25 |
| Logging Cost, exclusive of selling cost and interest | 7.01 |
| Stumpage | 4.06 |
| Total | <hr/> \$17.32 |
| Selling price for six months 1915, less cost of selling | 14.80 |

(j) *Conclusion.*

We have dwelt at some length on cost of production and prices realized for lumber by the manufacturer during the past five or six years. As was said by the Court in the Steel Corporation Case, 223 Fed., 55:

“It is a mere truism to say that the fixing and maintaining by a manufacturer of a fair price above cost is not only a right but a commercial necessity, and any other course must end in his bankruptcy.”

The experience of the industry for a number of years past has been most trying. The manufacturers have faced a constantly declining market, together with a constantly increasing expense. The figures submitted are accurate; they are far more eloquent than words and require no elaboration.

Who is benefited as a result of such conditions? Certainly not the wage earner, nor the farmer supplying the products of the farm to the mill hands. The business men and the communities who rely in a great measure for their support on the industry do not profit by its paralysis. The railroads which depend so largely on this traffic for their revenue suffer or prosper as the lumber business shrinks or expands; and in the last analysis it is doubtful if even the ultimate consumer receives the benefit, if it could be so called, of the low price. The quality buyer unquestionably does, but whatever advantage accrues to the small user from the low price is very small compared with the enormous loss to the community as a whole. We submit that the condition in industrial life which is most beneficial to all is that condition, wherein each industry secures fair profits, pays fair and living wages to its workers, and is able to and does participate in the upbuilding of the community in which it is located. Such conditions make for national prosperity, for decent standards of living, for the establishment of homes, and for all that makes life worth while.

Decadent industrial conditions, lack of employment, and commercial distress never did and never will benefit any community or any nation. The laborer is as worthy of his hire in the lumber industry as in any other. That hire he has not received; and instead of being condemned, he should be praised for his determination and pluck in holding on in the face of such adverse conditions of all kinds as have confronted him for the past seven years.

(4) THE SHINGLE INDUSTRY.

(a) *Introduction.*

No branch of the lumber industry in the Northwest has been the subject of more thought and discussion than has that of shingles. And yet, notwithstanding the product is an article of common use and the business one of some year's standing, it is putting it mildly to say that it is in a very unsatisfactory condition. Wide fluctuations in prices and unstable demands, with more or less demoralization as a result, have been the history of this branch of the industry since its inception. Various reasons have been assigned in explanation, and many have studied the subject in order to find a remedy for a condition which all concede exists.

The testimony of those engaged in the industry shows that, taken as a whole, the business is not only not profitable, but is being conducted at a loss. The Northwest states produce red cedar shingles. In 1912 cedar shingles represented 78.9% of the entire production of the United States, and the state of Washington produced 84.2% of the cedar shingles and 66.4% of the total shingle output of the United States. The production of the states of Idaho, Oregon and Washington by years for 1909 to 1912, both years inclusive, and of the United States for the three first named years, as shown by the report of Joseph Burke Knapp and Alexander Grant Jackson to the Forest Service, made in 1914, was as follows:

Shingles Produced (Thousands).

| | 1909. | 1910. | 1911. | 1912. |
|----------------|------------|------------|------------|-----------|
| United States. | 14,907,371 | 12,976,362 | 12,113,867 | |
| Idaho | 62,308 | 60,425 | 36,354 | 37,641 |
| Oregon | 293,644 | 319,894 | 392,894 | 271,205 |
| Washington .. | 8,879,467 | 8,333,639 | 7,745,525 | 7,996,251 |

According to the statement of Mr. Neil Jamison at the Tacoma hearing (Rec., p. 90), the most authentic report

of the number of shingle mills in the state of Washington was published January 1, 1915. This report shows 292 live mills, representing an investment of \$7,000,000 and paying to their employes, in wages, about \$4,500,000 annually. Their yearly expenditure for taxes, insurance, industrial assessment, and general operating charges is about \$2,000,000. Owing to the character of the timber from which these shingles are made (cedar), about 80% of the log is used in their manufacture which, if not so used, would be largely wasted. In other words, but about 20% of a cedar log would be of commercial value if it were not used for the manufacture of shingles.

Therefore, from any standpoint, this industry is worthy of the most serious consideration by this Commission and by all persons who are interested not only in the development of the West, but in the use of the forests throughout the country as well.

(b) History and Present Conditions.

Mr. John McMaster, one of the earliest and most competent manufacturers of shingles in Washington, has prepared for this brief a short account of the history of the shingle industry in Washington which is the basis of what is said under this heading. Cedar timber in Washington about 26 years ago was without value. The pioneer split it into shakes to roof his house, barns, and out-buildings, and the Indian hewed out his canoes from the better trees; but in estimating the stand of timber cedar was not considered, as it had no commercial value. After the Northern Pacific reached Puget Sound in 1887, shingle mills began to be built in a small way, but it was not until after the advent of the Great Northern, and the establishment by it and other roads early in 1893 of rates under which shingles could move to eastern markets, that the shingle business became commercially important. The business grew rapidly, reaching its zenith in 1905, when reports indicate that 37,486 carloads of shingles were shipped from the state of Washington (Pac. Lumb.

Trade Journal). Under normal conditions about 15,000 men were employed. Since 1905, however, the production has never been as great. The shipments for the year 1912, the latest of which we have a record, are estimated at 34,000 carloads.

. In the Pacific Northwest the industry was at first an unknown quantity. Experience gained in the making of shingles in the East was of no value. The climate was different, the timber different, and a shingle mill that would answer in Michigan was of no value on the Coast. The result has been a series of experiments covering nearly the entire life of the business; and the rule that experiments are costly found no exception in this case. After trying out various kinds of machines the manufacturer ultimately returned to the one he started with, only very much improved. A continued handicap has been the lack of skilled labor, particularly of expert sawfilers. This may seem a trifling matter to refer to, but more often than not it means the difference between a good shingle and an inferior one. Another handicap applying to shingles as well as to lumber is the long distance to markets and the transportation cost. To sell the product in any quantity requires that the shingles be brought to a reasonable weight. This is accomplished by the drying process. At first this was wholly unscientific, the first kilns being built in the nature of bake ovens. Not only were enormous losses suffered from fire, but such a crude process led to over-drying, crimping, and other defects, with the result that the product was not looked upon with favor by the consumer. Mistakes in construction, inferior machinery, inexperienced men, waste of timber, and poorly manufactured shingles have all unquestionably been factors in bringing about present conditions.

These drawbacks, however, have been and are being remedied. Red cedar has no superior as a roofing material, and the lessons taught by experience have been well learned. From an operating standpoint the mills gen-

erally are properly designed and equipped, and they are now prepared to turn out a good article economically and without waste; and, while not manufacturing altogether the same grade of shingle as is made in British Columbia, they do, grade for grade, make just as good a shingle.

The manufacturer, having arrived at this point, now faces an irregular and demoralized market, with no steadiness of demand or stability of price. During the period considered competition between domestic shingle manufacturers has been very keen, often forcing values below cost. This has been due to a variety of causes; excessive production, the facility with which small mills could be established, and business methods brought about very largely by conditions over which the smaller operator particularly had no control. Other domestic competition has been afforded by patent roofing, which, coupled with the campaign against the use of shingles as constituting a fire menace, has proved a serious and growing handicap. To overcome this prejudice and to induce the use of shingles for roofing purposes is the grave problem now confronting the industry.

Necessarily the burden of taxation is relatively just as heavy for the shingle mill operator as for the saw mill man; and the interest which the British Columbia government takes in the manufacture and distribution of shingles is quite as keen as that which it manifests in the lumber manufacturer. The shingle manufacturer in this country believes that the Canadian competition which confronts him is unfair competition, and that under present conditions the shingle manufacturer in British Columbia has an undue advantage over the manufacturer in the United States. Feeling thus, it is their belief that in stating their case to this Commission they should state it as they view it, even though in so doing some matters may be referred to over which the Commission has no jurisdiction; and that unless this is done the Commission will not have before it all the facts con-

stituting the problem which must in some way be solved if the shingle industry in the West is to be placed on a sound economic basis.

There is no question but that British Columbia has a decided advantage in the raw material, it being estimated that this advantage in itself represents about 25 cents per thousand shingles; also in the shingle mill about 75% of the labor is Oriental. The labor cost, besides, is somewhat less in British Columbia than in the United States. Attention will be directed to the active interest the British Columbia government takes in promoting the lumber industry. It is but current legislative history of the United States that while formerly foreign shingle manufacturers paid 30 and 50 cents per thousand duty, shingles now enter free. The shipping laws, particularly as affecting shipments to the Atlantic Coast by water, work as much hardship to shingles as to lumber; and under existing laws, with normal conditions, the British Columbia manufacturer has an undoubted advantage on shipments via the Panama Canal. While as yet the movement of American manufacturers to British Columbia has not assumed large proportions, it is nevertheless in progress; and the largest shingle mill in the Province (said to be the largest shingle mill, entirely under one roof, in the world) is owned by Americans who have just recently completed the plant and commenced operations.

The British Columbia manufacturers as yet make on the whole a higher grade shingle than is made in Washington, but some of the newer mills are now manufacturing practically the same grade. The tendency, moreover, on both sides of the line, is gradually to approach the same standards. That is, in Washington there is a decided trend towards higher grades, better grading, more careful packing, and better manufacturing, while in British Columbia there is a tendency to produce larger quantities of the medium grade.

The above being the facts, it is manifest that competi-

tion between the manufacturers on either side of the line will constantly grow more severe. The shrinking in prices has necessarily compelled reduction in wages, and the closing of mills has thrown many out of employment. The American manufacturers are able to supply the entire demand of the United States for red cedar shingles on a ten months run. This in itself necessitates extensive closing down, which is, of course, increased pro tanto by the extent to which foreign shingles displace the domestic product. In other words, the industry in this country has arrived at a critical stage, and no branch of the lumber industry looks more anxiously to this Commission for relief than that composed of the shingle manufacturers.

Mr. Neil Jamison, president of the Jamison Shingle Company, in a statement made before the Commission at Tacoma (Rec., p. 90), said that at the present time it is impossible for the manufacturer to realize a price for his product that will net him any return on the investment. He further stated that, according to statistics, not since 1900—fifteen years ago—have f. o. b. mill prices been as low as they are now. Star A Star shingles sold then as low as \$1.20 per thousand at the mill and the price now is the same, while some have sold as low as \$1.15. He also submitted a comparison of cost between that time and this. Shingle logs now are worth, according to quality, from \$8.50 to \$10 per thousand delivered at the mill, while in 1900 manufacturers were able to purchase a better quality of raw material for from \$5 to \$6.50. In 1900 the scale of wages was lower and the general expense of doing business less than it is today; yet shingles are now being sold for less than the cost of production. Mr. Jamison gave substantially the same causes for present conditions as did Mr. McMaster, namely: over-production, British Columbia competition, the competition of substitutes, and the marketing methods. He also called attention to the fact that the Washington mills have the capacity to manufacture a sufficient

supply for the home market, but have never been able to operate steadily, a condition leading to periodical shut-downs. Importation of shingles from British Columbia aggravate the situation. Mr. Jamison gave from his own observation an instance of British Columbia shingles being sold in Kansas at a price lower than he could meet, \$1.30 per thousand mill basis. It may be noted that he secures the greater portion of his log supply from British Columbia. He also pointed out that the business is such that small operators can readily engage in it, a "one machine" mill being worth about \$10,000. Occasional high prices attract the smaller operator, and that fact largely accounts for over-production in the past. He estimates the export tax when logs are purchased in British Columbia at from \$1.25 to \$1.50 per M feet, and the towing at about as much more. He placed the minimum cost to the American mills from these causes at \$2.50 per M feet; yet, notwithstanding this handicap, logs are being purchased in British Columbia and delivered in the United States at a less price than the same quality of logs can be purchased in this market, and the estimated advantage to the British Columbia manufacturer in the price of raw material Mr. Jamison reckoned at no less than 25 cents per thousand of manufactured shingles. He also gave it as his opinion that in British Columbia they are able to produce the same grade of shingle more cheaply than the Washington manufacturer can; that wages in the shingle mills of Oregon and Washington had recently been reduced, on an average, 10%; and that conditions are such that further reduction in wages may be necessary. In discussing competition with substitute roofing materials, he referred to the fact that these articles are protected by an import duty of from 5% to 15% ad valorem.

As to conditions in general, Mr. Jamison frankly referred to the element of speculation that still prevails; to the fact that the manufacturer moves his product as fast as it is turned out; that control of output has not

been possible; and that many, being forced to sell for what they can get at the time the shingles are produced, have been more or less at the mercy of the broker and scalper. The manufacturers are not permitted to organize and take concerted action to control production markets or sales prices; but, if placed on an equality with competitors and allowed to organize for better distribution of the product, they believe that they will be able to solve any further trouble. The supply of cedar in Washington is dependent on the logging of fir. When the fir market is good, there is a good supply of cedar, as the cedar is mixed with the fir. In British Columbia it is different, as they have almost solid stands of cedar and their logging operations are not affected by the fir market.

We have set out the statements of Mr. McMaster and Mr. Jamison in considerable detail, as they were the two representatives selected to speak for the shingle men. As has been suggested, the men directly concerned, both for themselves and as representatives of others, feel it is only just that the Commission, whatever the limitations on its power, should have all the facts laid before it and should know the attitude which those engaged in the industry take toward all phases of the question. It may be said that more detailed examination confirms these statements, and that, regardless of the conclusions one might reach from them, the facts as stated by the gentlemen quoted are just as they represented them.

With this brief we submit some interesting photographs showing the process of going over the logged-off lands the second time. These show clearly the character of that portion of the log which is used in the manufacture of shingles, and demonstrate as no words can how this branch of the industry not only conserves the raw material, but, through the use of what otherwise would necessarily be wasted, creates a merchantable product, employs thousands of people, and brings into bearing lands which otherwise would be but a waste of stumps

and undergrowth. The results from the operation of this industry are of real importance from a public standpoint, and should be seriously considered in any study of the subject. It is not alone a question of the use of shingles, or of the cost of manufacture as between two competing sections. The question is far deeper than that; and a superficial study might easily lead to the overlooking of economic principles, as well as of important facts which are of grave import both to the West Coast states and to the nation as a whole.

(c) *Competition—Substitutes and Canada.*

We have at various points referred to the competition which the red cedar shingle has to meet. Substitutes for the domestic shingle compete in every market. Their sale is energetically pushed, and is much helped by a carefully fostered prejudice against wood as a building material, and particularly against shingles for roofing. To read some of the articles and advertisements, and even building ordinances dealing with this subject, one would almost believe one's self not safe from fire while eating at a mahogany table. This campaign against wood on the ground of fire menace has had a profound and far-reaching effect. Between themselves, in addition, the domestic shingle manufacturers compete most keenly. Over-production would account for this if no other cause were present. Unless some way can be found by which market conditions can be more standardized, it is difficult to see how the character of this competition will be altered. In other words, so far as price to the consumer is concerned, domestic competition is so bitter that no fear need be felt on that score. As to Canadian competition, we again quote from the report of Messrs. Knapp and Jackson:

“The shingle producing region competing most keenly with the Northwest is that immediately north of the Canadian line in British Columbia, where the shingle industry has developed rapidly in recent years. The British Columbia manufacturer is said

to have an advantage in the price of raw material, as the Provincial government permits the cutting of cedar bolts and cedar timber at a cost somewhat less than can be obtained on the American side. Furthermore, it is claimed that in British Columbia only the better class of timber is logged and hence a higher grade product is obtained.

"Canadian manufacturers employ a cheap grade of Oriental labor, mostly Hindus, Chinese and Japanese, while American employers are restricted by organization of employes to hiring white men only. The Oriental laborer lives on a lower scale and accepts less pay, but he is slower than the American laborer and not as efficient.

"During 1910 the United States imported from Canada 762,798,000 shingles, many of these from British Columbia. During that year no shingles were imported into the United States from other countries, but the United States exported 17,292,000 shingles, of which 3,603,000 were shipped into Canada, and most of the rest into Mexico and British West Indies.

"Of the shingles imported into the United States from Canada a large quantity is distributed in territory which is the logical market for Northwest shingles. Quantities enter the country through North Portal for the North Mississippi Valley and Lake States, and large numbers are transported over the Canadian Pacific Railway to Montreal and thence southward into the Eastern United States. Shingles manufactured in Eastern Canada also compete in the Atlantic Coast markets."

(d) Prices.

An examination of the prices received by the shingle manufacturers extending over the entire period considered indicates, with the exception of two or three years, what may properly be termed "cut-throat" competitive conditions, as well as most erratic markets. Using Star A Star as a basis and commencing in 1905, it will be found during that year that the price varied from \$1.31 per thousand to \$1.46; in 1906, from \$1.50 to \$1.90; 1907,

\$1.90 to \$2.73; 1908, \$1.52 to \$2.18; 1909, \$1.54 to \$1.83; 1910, \$1.55 to \$1.86; 1911, \$1.37 to \$1.51; 1912, \$1.35 to \$2.22; 1913, \$1.40 to \$2.15; 1914, \$1.27 to \$1.55; 1915, \$1.20 to \$1.35. The mere statement of the figures gives one but little idea of the variation. The graphic charts show the peak prices were quickly reached with as quick a recession; and about the only real purpose such prices served was to induce over-production during the advance and, as Mr. Jamison said, attract others into the business.

We take the following from the pamphlet heretofore referred to, "Western Red Cedar in the Pacific Northwest," by Messrs. Knapp and Jackson, of the Forest Service:

"The industry developed rapidly and in the following year, 1890, the Northwest shingle mills placed over 100 million shingles in the eastern markets. In 1892 a rapid increase in production took place and about 200 shingle mills were in operation in Western Washington. The panic year which followed caused a great slump in prices, the average dropping from \$1.75 to \$1.25 per thousand. In 1894 prices ranged as low as \$1.00 to \$1.05 for 'Stars' and \$1.25 for 'Clears.' Many shingle mills failed by bankruptcy and fire destroyed others. During the three following years prices continued low, 'Stars' ranging from 85 cents to 90 cents at the mills and 'Clears' from \$1.05 to \$1.15.

"During the summer of 1897 'Stars' advanced to \$1.10 per thousand and 'Clears' to \$1.25.

"During the ten years following prices advanced gradually until in 1907, the best year ever known to shingle manufacturers, 'Stars' averaged \$2.39 and 'Clears' \$2.67. The prosperity of the business at this time induced the erection of many new mills and an increase in the capacity of the old ones. In that year it was estimated that no less than 450 mills were manufacturing shingles in Western Washington. This resulted in great overproduction and a demoralization of the market, from which the industry has not recovered. At present many of the mills of Western Washington have shut down on account

of bankruptcy or fire. Approximately 350 mills are now operating.

"During the last three or four years those mills only with strong financial backing and well established markets have operated with satisfactory profits. Many mills continue to run at a small margin of profit and in some cases the cost of production and the selling price about balance."

This pamphlet was prepared in 1914, solely as an official study and having no relation to this investigation, and may therefore be assumed to be both accurate and unprejudiced.

It is true that the manufacturers get the benefit of the underweight. The standard shipping weight of "Stars" is 160 pounds per thousand. The kiln dried weight runs from 135 to 160 pounds; and (depending on the rate) the underweights on "Stars" will average about 12 cents. While the drying process, if properly handled, does not harm the shingle, it can be carried to excess, and it cannot be denied that, under the fierce pressure of competition, added to unscientific methods of drying and unskilful operation as well as other conditions, the drying process has been by some carried to an extreme. This, however, is being corrected, but, looking at the result of this improvement from the standpoint of the manufacturer, it is plain that an increased price must be secured to offset the lost underweight item. The manufacturers understand this and are engaged in a determined effort to maintain standards, even though temporary loss results therefrom. Moreover, more often than not, the higher prices received for the shingles resulted in no advantage to the manufacturers, as it was but the reflection of the price of logs, which at one time sold as high as \$15 per thousand. Neither the public nor the consumer gains anything by erratic prices, nor does any lasting gain result from the fact that a manufacturer is not making a legitimate profit. Indeed, it is very doubtful if the benefit, if it is a benefit, of such rapidly changing prices could be passed on to the ultimate consumer at all.

(e) *Cost of Manufacture.*

We have endeavored to secure accurate information respecting cost. Without standardized methods of book-keeping it is somewhat difficult to get the most satisfactory results. We have, however, endeavored to secure enough figures to make a fair composite statement. This, taken in connection with investigations made by various departments of the government at the command of this Commission, will enable it to form reasonably accurate conclusions.

Necessarily the cost varies with the price of logs and labor. One statement rendered us by a very competent manufacturer shows a cost for 1913 of \$1.79 per thousand; 1914, \$1.74 per thousand; June and July, 1915, \$1.42 per thousand. The drop was brought about by a wage reduction of 20% and a reduction in cost of logs of \$1 per thousand. This manufacturer made no charge for interest on investment, but his cost includes taxes and depreciation. His average selling price in 1913 was \$1.96; 1914, \$1.76; and for two months in 1915, \$1.30. A straight shingle mill, manufacturing 10% clears and 90% stars, reports for 1914 a cost, not including interest or depreciation, of \$1.70 per thousand; combination mill for year 1914, on same basis, 60% stars, 40% clears, \$1.57; straight shingle mill, all 100% clears, same basis, \$1.73; straight shingle mill, manufacturing premium stars only, same basis, \$1.58. At the date of statement this mill was selling at \$1.45 per mill basis and including underweights, \$1.57 per thousand. Combination mill, 40% clears, 60% stars, cost \$1.43. The foregoing costs are not from selected mills, and if the Commission desires to check the figures or secure more, every opportunity will be given it. The report of Messrs. Knapp and Johnson heretofore referred to deals with the cost of manufacture. We take the following excerpt therefrom, omitting detailed figures which are set forth in the report:

Timber.

"Cedar logs in the large shingle producing regions of Washington cost \$8.50 to \$12.00 per M feet, with an average of about \$10.00. One thousand feet of logs will average 10,000 'Extra *A*' or 8,000 'Extra Clear' 16-inch shingles. Therefore, the cost of timber in the log for every thousand *A* shingles is \$1.00, and for 'Clears,' \$1.25.

"The average price of a cord of western red cedar shingle bolts, containing approximately 700 feet board measure, is \$3.50 and varies from \$3.25 to \$4.50. Bolts average 5,000 'Extra *A*' or 4,000 'Extra Clear' 16-inch shingles per cord. Hence the cost of timber in bolt form for every thousand *A* shingles is 70 cents and for 'Clears' 87½ cents.

Manufacturing.

"The following tabulations give the cost of production at representative shingle mills, using logs or bolts as raw material. The costs are based on wages paid in Western Washington and are the average for that region. The fixed charges include maintenance, interest, insurance, taxes, depreciation, office expenses and night watchman.

MILL No. I.

(Log Mill.)

| | | |
|--|------------------|----------|
| Cut of mill per day..... | 200,000 shingles | |
| Output 1910 | 50,000,000 | " |
| Grades—50% "Stars," 50% "Clears." | | |
| Average cost of logs—\$10.00 per M feet. | | |
| Cost of timber (50% "Clears," 50% | | |
| "Stars") | \$ | 1.121½ |
| Labor, etc..... | | .661½ |
| Total cost of production..... | | \$ 1.79 |
| Average selling prices (50% "Stars," | | |
| 50% "Clears") | | 1.861¼ |
| Total cost of production..... | | 1.79 |
| Net manufacturer's profit..... | | \$.071¼ |
| Total annual earning (50,000,000 shingles) | | 3,750.00 |

MILL No. II.
(Log Mill.)

| | |
|---|------------------|
| Cut of mill per day..... | 190,000 shingles |
| Output 1910 | 47,690,000 " |
| Grades—60% "Clears," 35% "Stars," 5% "Culls." | |
| Average cost of logs—\$10.00 per M feet. | |
| Cost of timber (60% "Clears," 35% | |
| "Stars," 5% "Culls")..... | \$ 1.15 |
| Labor, etc..... | .67 |
| Total cost of production..... | \$ 1.82 |
| Average selling prices (35% "Stars," | |
| 60% "Clears," 5% "Culls")..... | 1.90¼ |
| Total cost of production..... | 1.82 |
| Net manufacturer's profit..... | \$.08¼ |
| Total annual earning (47,690,000 shingles) | 3,934.42 |

MILL No. III.
(Bolt Mill.)

| | |
|--|------------------|
| Cut of mill per day..... | 110,000 shingles |
| Output 1910 | 20,000,000 " |
| Grades—70% "Clears," 30% "Stars." | |
| Average cost of bolts—\$0.75 per 1,000 shingles. | |
| Cost of bolts per 1,000 shingles..... | \$.75 |
| Manufacturing costs, etc..... | 1.07 |
| Total cost of production..... | 1.82 |
| Average selling price (1910), 70% | |
| "Clears," 30% "Stars"..... | 1.94¼ |
| Total cost of production..... | 1.82 |
| Net manufacturer's profit..... | \$.12¼ |
| Total annual earning (20,000,000 shingles) | 2,450.00 |

MILL No. IV.
(Bolt Mill.)

| | |
|--|-----------------|
| Cut of mill per day..... | 70,000 shingles |
| Output 1910 | 17,722,000 " |
| Grades—65% "Clears," 30% "Eurekas," 5% | |
| "Culls." | |
| Average cost of bolts—\$3.50 per cord. | |
| Cost of raw material ("Clears" 65%, | |
| "Eurekas" 30%, "Culls" 5%)..... | \$.95 |
| Manufacturing cost, etc..... | .82¾ |
| Total cost of production..... | \$ 1.77¾ |

| | | |
|---|----|--------------------|
| Average selling price (all grades manufactured) | \$ | 2.02 $\frac{1}{2}$ |
| Total cost of production..... | | 1.77 $\frac{3}{4}$ |

| | | |
|--|----|-------------------|
| Net manufacturer's profit..... | \$ | .24 $\frac{1}{2}$ |
| Total annual earning (17,722,000 shingles) | | \$4,341.90 |

MILL No. V.
(Bolt Mill.)

| | | |
|--|------------|--------------------|
| Cut of mill per day..... | 100,000 | shingles |
| Output 1910 | 20,000,000 | " |
| Grades—60% "Clears," 40% "Stars." | | |
| Total cost of production..... | \$ | 1.73 |
| Average selling prices (60% "Clears," 40% "Stars") | | 1.90 $\frac{1}{4}$ |
| Total cost of production..... | | 1.73 |

| | | |
|--|----|-------------------|
| Net manufacturer's profit..... | \$ | .17 $\frac{1}{4}$ |
| Total annual earning (20,000,000 shingles) | | \$3,550.00 |

There is no great difficulty, however, in determining an average price. One manufacturer may use bolts, another logs; one may operate a combination mill, another a straight shingle mill. And, while there will always be some variation, there is no mystery bound up in this question. A certain number of shingles are manufactured from logs, or bolts, and wages paid about the same. So, taking the matter on any basis desired, it is hardly a matter of doubt that at this time the shingle business as a whole is unprofitable, if indeed it is not being conducted at an actual loss.

(f) Wages.

When confronted with conditions such as have been described, a manufacturer faces one of two alternatives—closing down or reducing cost. For obvious reasons, no manufacturer voluntarily closes down. The reason may be briefly expressed,—“It costs too much.” Overhead, loss of business, depreciation and sundry expenses all go on. The shingle manufacturer has in reality two ways open to him to reduce cost,—price of raw material or wages. The price of logs is largely beyond his control,

and, while depressed business affects the price to some extent, the shingle manufacturer, because of the fact that he cannot get a sufficient supply of logs locally unless there is a market for fir logs, is handicapped, and is forced to go to British Columbia for his supply if he is to continue making shingles. Here, as against his British Columbia competitor, he is met with an export duty of from \$1 to \$2 per thousand and a towing bill of about \$1 per thousand or more. The wage scale is more or less within his power to fix; that is, he cannot be compelled to operate. The result has been a reduction in labor cost between 1913 and 1915 of about 6 cents per M feet. This on a cut of say eight billion shingles means a loss to labor of about \$480,000 per annum.

We submit four tabulations of wages for 1913 and 1915 which we are assured are representative of the general situation.

WAGES PAID LABOR FOR YEARS 1913 AND 1915.

4-Machine Mill.

| | 1913. | 1915. |
|-------------------|----------------|--------|
| Sawyer | 17½¢ per M | 15c |
| Packer | 9c " " | 8c |
| Filer | \$6.75 per day | \$6.00 |
| Car Loader..... | 2.50 " " | 1.75 |
| Engineer | 3.00 " " | 2.75 |
| Cut-off Man..... | 3.50 " " | 3.00 |
| Tally Man | 2.75 " " | 2.50 |
| Fireman | ... | ... |
| Other Labor | 2.75 " " | 2.00 |

8-Machine Mill.

| | 1913. | 1915. |
|-----------------|-----------------|-----------|
| Sawyer | 17c & 19c per M | 13c & 14c |
| Packer | 9c per M | 8c |
| Filer | \$ 5.00 per day | \$ 5.00 |
| Car Loader..... | 2.25 " " | 1.75 |
| Engineer | 125.00 " mo. | 100.00 |

| | | |
|-------------------|------------|------|
| Cut-off Man..... | 3.00 “ day | 2.50 |
| Tally Man | 2.25 “ “ | 2.00 |
| Fireman | 2.75 “ “ | 2.25 |
| Other Labor | 2.25 “ “ | 1.75 |

26-Machine Mill.

| | 1913. | 1915. |
|------------------|----------------|----------------|
| Sawyer | 16c per M | 12c per M |
| Packer | 9c “ “ | 7½c per M |
| Filer | \$7.50 per day | \$6.00 per day |
| Car Loader..... | 2.50 “ “ | 2.00 “ “ |
| Engineer | 3.50 “ “ | 2.75 “ “ |
| Cut-off Man..... | 4.00 “ “ | 3.00 “ “ |
| Tally Man | 3.00 “ “ | 2.25 “ “ |
| Fireman | 2.75 “ “ | 2.25 “ “ |

5-Machine Mill.

| | 1913. | 1915. |
|-------------------|----------------|--------------|
| Sawyer | 16c per M | 13c |
| Packer | 9c “ “ | 7c |
| Filer | \$5.25 per day | \$4.75 |
| Car Loader..... | 2.50 “ “ | 2.00 |
| Engineer | 3.00 “ “ | 2.00 |
| Cut-off Man..... | 2¼c per M | 2.75 per day |
| Tally Man | \$3.25 per day | 2.25 |
| Fireman | 2.50 “ “ | 2.00 |
| Other Labor | 2.50 “ “ | 1.75 |

(g) Quality of Product.

Something has been said about the better quality of the shingles produced in British Columbia as compared with those made in the United States. This situation is not generally understood, and it is not impossible that an erroneous conclusion is being drawn from a very general statement. It is true that generally British Columbia shingles are of higher grades than those manufactured on this side of the line. It is *not* true that we do not make as good shingles as they do,—we do, and we can make all that the market will absorb.

On the other hand, little thought seems to be given to the reasons tending to the making of the higher grade shingles in British Columbia. While every manufacturer desires to make a good article, the manufacture of high grades can be carried on generally only where raw material and manufacturing cost are cheap and waste is but little considered. It is obvious that to produce the higher grade shingles only higher grade material can be used, and higher cost follows. It is nothing to the discredit of the manufacturer on the American side of the line that he produces large quantities of a good article at a reasonable price. No one can truthfully say that our red cedar shingles properly laid will not make the very best roofing. We are not discussing packing or other elements of appearance, which are important from a selling standpoint, but the merit of the article *per se*. There is necessarily a large use for a good, well made shingle at a reasonable price, as against an extra fine shingle for particular uses. All kinds of shingles are made in the Pacific Coast states, and it would seem that, as concerns public policy and the prevention of waste, the shingle industry in those states has been working on right lines. Indeed, there is very direct evidence that even now the tendency in British Columbia is toward a change in this respect. The largest mill in that Province is said to be making stars only. If this continues, it would seem that the effect will be still further to stimulate and increase the importation of shingles, and make the domestic problem the more difficult. From the report of Messrs. Knapp and Jackson it may be seen how the character of the output is controlled by perfectly natural causes other than the demand. We quote from this report as follows:

About 95% of the output of western red cedar shingles is confined to two 16-inch grades: "Extra Clear," a thick shingle, constitutes 40%, and "Extra *A*," a thin shingle, 55%. The remaining 5% is divided among other grades, mostly 18-inch "Perfections" and "Eurekas," 16-inch "Standard A"

and dimension shingles of special brand and fancy butts.

Shingles manufactured in Eastern Washington and Idaho are graded as No. 1 and No. 2 and are consumed almost entirely near the point of production. They conform to the "Extra Clear" and "Extra *A*," grades of Coast shingles.

The use of the inferior portions of cedar logs and the employment of block machines by combination mills results in a relatively small percentage of high grade shingles. Combination mills supply about 25% of the output of cedar shingles; they produce 15% of the "Extra Clears," 35% of the "Stars," and 10% of other grades, largely "Standard A." Mills making shingles only, cutting logs and bolts and running all raw material into shingles, contribute 75% of the output, including 85% of the "Clears," 65% of the "Stars," and 90% of the other grades of shingles manufactured.

The thick shingles, "Extra Clear," are generally utilized in established communities for permanent work and are comparatively high priced. They find their principal market in the populated regions of the Middle West and the Eastern states. The thinner grade, "Extra *A*," is consumed in the West and Southwest where the country is being built up and where temporary or semi-permanent uses make a cheaper shingle desirable. The 18-inch shingles, "Perfections" and "Eurekas," are used largely in the Eastern states for permanent work.

(h) Import Statistics.

Data from statistical abstract of the U. S. Bureau of Foreign and Domestic Commerce, showing import of shingles from British Columbia for fiscal year ending June 30th, 1915:

| Year. | Tariff | Thousand Shingles | Value | No. Cars |
|-------|--------|----------------------|-------------|-------------|
| 1903 | 30c | 724,131 | \$1,494,906 | 3621 |
| 1904 | 30c | 770,373 | 1,602,999 | 3852 |
| 1905 | 30c | 758,725 | 1,581,421 | 3794 |
| 1906 | 30c | 900,856 | 1,852,612 | 4504 |
| 1907 | 30c | 881,003 | 1,940,001 | 4405 |
| 1908 | 30c | 998,081 | 2,379,242 | 4990 |

| | | | | |
|---------------------------|----------|-----------|-----------|------|
| 1909-8/5 tariff raised to | | | | |
| | 50c | 1,058,363 | 2,500,398 | 5292 |
| 1910 | 50c rate | 762,798 | 1,795,397 | 3814 |
| | | Thousand | | No. |
| Year | Tariff | Shingles | Value | Cars |
| 1911 | 50c rate | 642,582 | 1,387,743 | 3213 |
| 1912 | 50c " | 514,657 | 1,205,327 | 2523 |
| 1913 | 50c " | 560,297 | 1,399,751 | 2801 |
| 1914 * | 50c " | 149,474 | 398,925 | 747 |
| 1914** | Free | 745,564 | 1,791,245 | 3728 |
| 1915 | Free | 1,487,116 | 3,104,698 | 7436 |

Note: *These figures represent shingles shipped in from July 1st to October 3rd, 1913.

**These figures represent shingles shipped in from October 4th, 1913, to June 30th, 1914.
Duty removed October 4th, 1913.

TARIFF ON ROOFING SUBSTITUTES.

| | | |
|-----------------------|-----|------------|
| Roofing Felt | 5% | ad valorem |
| Slate Roofing | 10% | " |
| Galvanized Iron | 15% | " |
| Tile | 30% | " |

(i) Summary.

It could not be expected of a brief of this character that it should enter into the detail of manufacturing, distribution, etc.; but rather that it should give as concretely as possible facts on which the Commission can rely in considering conditions and, if possible, discovering some way to help the manufacturers remedy the situation. More or less has been said of close-downs. Under existing conditions close-downs cannot be avoided. It is said that, in Washington alone, there are 1,200 machines with a combined capacity of 50,000 carloads per year. As the greatest number of carloads ever shipped in any one year was about 40,000, it is clear that periodical close-downs are inevitable. Since production is increasing in British Columbia, with the United States its best and nearest market, it seems plain that, unless there is a great increase in the demand, before long there will be fewer mills and less production in the Pacific Coast states.

The foregoing statement places before the Commission in reasonably concrete form the situation with respect to the shingle industry in the Northwest. There is no pretense that we have gone into minute detail as to every feature of the business. The Commission has at its command statistics which have been carefully gathered by reliable men, and it would serve no purpose to burden the records with a reprint of what they already have.

The industry has its defects and faults, some inherent and unavoidable, some of which could and should be corrected by those engaged in it. Some of these, as is the case with lumber, are subject only to state control; but such matters as better manufacturing, better packing, better merchandising, standardization of grades, better methods of marketing, standardization of accounts, and the like, are solely in the hands of the manufacturers themselves. This Commission cannot undertake to operate the shingle mills of the West. On the other hand, in certain directions the Commission may be of some assistance. It may indicate to what extent co-operation between those engaged in the industry would lead to better results. Clearly something should be done in this direction, for no one can view with satisfaction the chaotic and unstable state of this industry in the past. Such a condition is of benefit to no one. Other factors appear with which this Commission may not be able to deal. But the shingle manufacturer, who must face these problems and in some way solve them has, to every reasonable extent, a right to rely upon the sympathetic interest of his government and of its agencies. There is no question but that the government agencies of his chief competitor are doing and will do everything possible to further that competitor's interest, and this assistance is a powerful factor to be reckoned with. The whole question is a serious and complicated one; and we feel sure that the members of this Commission will be glad to lend their aid in bringing it to a satisfactory issue.

(5) *Matters More or Less Under the Control of the Manufacturer and Inherent in the Industry.*

(a) *Introduction.*

Thus far much of the discussion has been confined to a consideration of the past and of existing conditions. It would be well, therefore, before we take up the question of what governmental agencies may do upon the basis of past experience to attempt to forecast the course which those engaged in the industry are to follow if it is to be placed on a sound business basis.

The lumber industry is not so unique as not to be judged by rules based on experience and reason, or as not to respond to universal laws of economics and business. It has had its ups and downs, its experience and lessons from which deductions may be fairly drawn, which will be of value in forming conclusions as to its future and in avoiding the rocks which have wrecked so many enterprises in the past. While we do not wish to burden the Commission with a multiplicity of tables and statistical data, a brief review of some important factors, some of which have heretofore been discussed, and others of which may be dwelt on hereafter, may shed some light on the future course of the industry.

(b) *Number of Mills—Production—Consumption.*

Generally speaking, we rely for our statistical information on the Bureau of the Census, the Department of Commerce, the Department of Agriculture, and the Forest Service. The exact number of saw mills in the United States is probably not known. It is safe to say, however, that big and little they number 48,000 to 50,000, or possibly more. The most accurate figures we have are those secured by the agents of the Bureau of the Census in 1899 and 1909. In 1899 there were in the United States, in active operation, 31,833 mills; in 1909, 48,112. Since 1909 the number of active mills reporting by mail to the Forest Service is much less than the 1909 figure,

but since those so reporting are the larger mills, and the smaller mills cut but a relatively small proportion of the output (as a Forest Products Circular of May 12, 1913, puts it), "the variation in the number of such mills reporting is of minor significance in determining the production for different years." The following tabulation, taken from Bulletins issued by the Department of Commerce December 30, 1913, gives the only figures available as to the number of mills and their output. In examining the tables it should be borne in mind that, as stated by these Bulletins, "statistics for different years are not exactly comparable on account of the varying number of small mills which made returns in the different years," and that the returns for 1899 and 1909 are exceptionally complete, it being stated by Mr. R. S. Kellogg (p. 317, "Lumber and Its Uses") that the 1909 canvass was by far the best ever made.

*Lumber, Lath and Shingles—Number of Active Mills
Reporting and Quantity of Products
for Specified Years: 1899 to 1912.*

| Year | Number of active Mills reporting | Lumber (Quantity, M feet b.m.) | Lath (Quantity, thousands) | Shingles (Quantity, thousands) |
|---------|---|--------------------------------------|----------------------------------|--------------------------------------|
| 1912... | 29,648 | 39,158,414 | 2,719,163 | 12,037,685 |
| 1911... | 28,107 | 37,003,207 | 2,971,110 | 12,113,867 |
| 1910... | 31,934 | 40,018,282 | 3,494,718 | 12,976,362 |
| 1909... | 48,112 | 44,509,761 | 3,703,195 | 14,907,371 |
| 1908... | 31,231 | 33,224,369 | 2,986,684 | 12,106,483 |
| 1907... | 28,850 | 40,256,154 | 3,663,602 | 11,824,475 |
| 1906... | 22,398 | 37,550,736 | 3,812,807 | 11,858,260 |
| 1904... | 18,277 | 34,135,139 | 2,647,847 | 14,547,477 |
| 1899... | 31,833 | 35,084,166 | 2,523,998 | 12,102,017 |

The latest report we have on mills and production is Bulletin No. 232, Department of Agriculture. It shows for 1913 21,668 active mills reporting, and the quantity of lumber cut in M feet B. M. as 38,387,000. The report also states that in 1913 the number of active mills includes only those cutting lumber, while figures for other

years include mills cutting lath and shingles as well as lumber.

Since 1913 there has been a decline in lumber production and even the reduced supply was in excess of the demand.

(c) Capacity of Mills.

The capacity of the mills is far in excess of present output and on the existing basis of consumption is a standing menace to stability as well as to fairness of prices. The exact amount of lumber which the mills of the United States can produce, of the exact relation of present output to capacity, is not known. Enough, however, is known to show that the mills can produce far in excess of the present output.

At the Tacoma hearing (p. 53) Mr. Babcock explained this feature as respects Washington and Oregon. He showed that the 10-hour potential capacity of the mills in Oregon and Washington west of the Cascade Mountains is 6,915,456,000 feet. Note that this is a 10-hour basis, and night and day running is not uncommon. According to his figures the cut in 1912 for the territory named was 4,965,935,000 feet; in 1913, 5,640,520,000; in 1914, 4,530,000,000 feet. As to this territory, no doubt exists of the ability of the mills to increase the output enormously. Mr. Toole's statement at Spokane shows that the same facts exist with respect to the mills of the Inland Empire. At page 10 of the record it is stated that the annual lumber producing capacity of the mills of the Inland Empire, based on a run of 200 days per year and two shifts, is about three billion feet. Figures compiled by the Forest Service show that production has been less than 50% of this theoretical capacity for each of the past five years. Mr. Toole also stated (p. 10) that figures compiled by the Association for mills reporting to it, show that on the basis of taking the best annual cut of each plant for the past and assuming this as its capacity the production of these plants has averaged for

five years about 65% capacity. In a carefully prepared paper by Mr. R. S. Kellogg, published in the "Lumber World Review," January 25, 1912, p. 28, it is stated:

"The cutting capacity of the saw mills in the United States is far in excess of the market demand for lumber. Just how much potential production exceeds consumption can not be said, but it certainly amounts to from 25% to 50%."

He then discusses a case of forty mills in Wisconsin and northern Michigan with which he was familiar and says:

"Allowing for break-downs and necessary repairs, these forty mills should be able to saw in eight months all the lumber they sold in 1910, and that they sold all the product that could be marketed is proved by the prices obtained. This means that on the average these mills were either idle for four months of the year or that they operated at less than full capacity for more than eight months."

We have not before us at this moment the figures specially applicable to the Yellow Pine capacity, but we are advised that the same situation obtains there as elsewhere. The Forest Service should be able to shed further light on the subject. The conclusion that capacity is far in excess of present output or demand is beyond question based on facts.

(d) Largest Lumber Producing States.

It may be of interest to have in mind the five largest lumber producing states since 1909.

| State | No. of Saw Mills Reporting | Lumber sawed (M Board Feet) |
|---------------------|-------------------------------|--------------------------------|
| | 1909 | |
| Washington | 1143 | 3,863,000 |
| Louisiana | 658 | 3,552,000 |
| Mississippi | 1795 | 2,573,000 |
| North Carolina | 3307 | 2,178,000 |
| Arkansas | 2060 | 2,111,000 |
| | 1910 | |
| Washington | 951 | 4,097,000 |
| Louisiana | 497 | 3,733,000 |
| Mississippi | 1061 | 2,122,000 |

| | | | |
|---------------------|------|------|-----------|
| Oregon | 574 | | 2,084,000 |
| Wisconsin | 872 | | 1,891,000 |
| | | 1911 | |
| Washington | 777 | | 4,004,000 |
| Louisiana | 502 | | 3,556,000 |
| Mississippi | 908 | | 2,041,000 |
| Oregon | 522 | | 1,803,000 |
| North Carolina | 2071 | | 1,798,000 |
| | | 1912 | |
| Washington | 788 | | 4,099,000 |
| Louisiana | 460 | | 3,876,000 |
| Mississippi | 952 | | 2,381,000 |
| North Carolina | 2418 | | 2,193,000 |
| Oregon | 480 | | 1,916,000 |
| | | 1913 | |
| Washington | 409 | | 4,592,000 |
| Louisiana | 408 | | 4,161,000 |
| Mississippi | 679 | | 2,610,000 |
| Oregon | 406 | | 2,098,000 |
| Texas | 341 | | 2,081,000 |

The statistics since 1913 are not available. It will be noted that the number of active mills reporting varied each year, but it is believed that the figures given correctly represent the relative rank in production.

(e) Small Mills.

That the small mill fills an important place in the industry is shown by the following figures giving number of mills and output in states not ordinarily classed as lumber producing:

| State | Years | | | | |
|-------------------|-------|-------|-------|-------|-------|
| | 1909. | 1910. | 1911. | 1912. | 1913. |
| Pennsylvania | 3,054 | 1,847 | 1,636 | 1,724 | 1,159 |
| New York | 2,308 | 1,468 | 1,520 | 1,487 | 1,917 |
| Ohio | 1,632 | 1,148 | 1,009 | 1,156 | 826 |
| Massachusetts ... | 643 | 459 | 430 | 420 | 312 |
| Vermont | 725 | 542 | 498 | 507 | 363 |

Lumber Sawed (M feet B. M.)

| | 1909 | 1910 |
|--------------------|-----------|-----------|
| Pennsylvania | 1,462,711 | 1,241,199 |
| New York | 681,440 | 506,074 |

| | | |
|---------------------|---------|---------|
| Ohio | 542,904 | 490,039 |
| Massachusetts | 361,200 | 239,206 |
| Vermont | 351,571 | 284,815 |

Lumber Sawed (M feet B. M.)

| | 1911 | 1912 | 1913 |
|---------------------|-----------|---------|---------|
| Pennsylvania | 1,048,606 | 992,180 | 781,547 |
| New York | 526,283 | 502,351 | 457,720 |
| Ohio | 427,161 | 499,834 | 414,943 |
| Massachusetts | 273,317 | 259,329 | 224,580 |
| Vermont | 239,254 | 235,983 | 194,647 |

It will be borne in mind that the 1909 figures are accurate, while the others are relative, covering mills voluntarily reporting.

(f) Relative Output of Mills.

While there is a very large number of small mills filling local needs and requirements, nevertheless it is in the nature of things inevitable, from the standpoint of economy, efficiency, and location of raw material, that relatively few large mills supply the great percentage of the output.

In 1909 28,459 mills cut $\frac{1}{8}$ of the supply; 2% of the mills cut 43% of the output, and 1.2% of the mills cut $\frac{1}{3}$ of the total product.

By Bulletin 232, U. S. Department of Agriculture, out of 21,668 mills reporting, 974 or 4.5% of the mills cut 60.5% of the output. Those familiar with conditions are not surprised at the showing.

(g) Kinds of Woods.

The following tabulation will show the woods of greatest use in percentages to total output, including redwood and cedar:

| | Rank 1909 | | Rank 1910 | |
|--------------------|-----------|------|-----------|------|
| Yellow Pine | 1 | 36.6 | 1 | 35.3 |
| Douglas Fir | 2 | 10.9 | 2 | 13.0 |
| White Pine | 4 | 8.8 | 4 | 8.4 |
| Oak | 3 | 9.9 | 3 | 8.8 |
| Hemlock | 5 | 6.9 | 5 | 7.1 |
| Western Pine | 7 | 3.4 | 6 | 3.9 |

| | | | | |
|---------------|---|-----|---|-----|
| Spruce | 6 | 3.9 | 7 | 3.6 |
| Cypress | 8 | 2.1 | 8 | 2.3 |
| Redwood | | 1.2 | | 1.4 |
| Cedar | | 0.8 | | 1.0 |

| | Rank 1911 | | Rank 1912 | | Rank 1913 | |
|--------------------|-----------|------|-----------|------|-----------|------|
| Yellow Pine | 1 | 34.9 | 1 | 37.6 | 1 | 38.7 |
| Douglas Fir | 2 | 13.7 | 2 | 13.2 | 2 | 14.5 |
| White Pine | 3 | 8.7 | 4 | 8.0 | 4 | 6.7 |
| Oak | 4 | 8.4 | 3 | 8.5 | 3 | 8.4 |
| Hemlock | 5 | 6.9 | 5 | 6.2 | 5 | 6.0 |
| Western Pine | 6 | 3.6 | 6 | 3.1 | 6 | 3.3 |
| Spruce | 7 | 3.4 | 7 | 3.2 | 8 | 2.7 |
| Cypress | 8 | 2.7 | 8 | 2.5 | 7 | 2.9 |
| Redwood | 13 | 1.3 | 12 | 1.3 | 12 | 1.0 |
| Cedar | 16 | 1.0 | 17 | 0.8 | 17 | 0.9 |

The large stands of yellow pine are in the south; Douglas fir occurs in the northwestern coast states; oak is pretty widely dispersed, and so is white pine. Hemlock is a northern tree. Redwood is confined to California. Cedar is found throughout the United States, but the large stand and output is on the Pacific Coast.

(h) Overproduction—Effect.

We have to consider not only overproduction as a fact based on existing cut, but also the potential production which can almost instantly be made actual, and its effect. Based on existing consumption, all authorities agree that there is an overproduction and apparently no way to control it. The result, excepting occasionally, is depressed prices, and when the prices pick up the potential capacity of the mills becomes actual and the increased output soon brings about the certain effect of reduction in price; whereupon selling at or below cost is again the vogue. This Commission has heard the same story proven by unimpeachable figures from every section. Department of Commerce Bulletin on Lumber, Lath and Shingles, 1911, issued May 12, 1913, at page 3, states the situation as it really exists:

“Rising wholesale lumber values always bring increased production, since many mills are operating

below capacity, and are in a position to take advantage of better market conditions."

In Department of Commerce Bulletin on same topic, 1912, issued December 30, 1913, at page 4, we find this statement:

"The amount of lumber cut in a given year is determined by a number of factors of too complicated relationship for adequate discussion here. The chief of these factors is of course the actual or prospective demand for lumber, but a falling off in demand does not always bring about a corresponding decline in production, since many operators will prefer to run their mills for a time without profit, or even at a loss, rather than to break up the organization of their operating force; and lumber manufacturing corporations having securities outstanding may likewise find it necessary to operate continuously, even at a loss, in order to maintain an income from which to pay interest charges. The stocks of lumber produced by these mills during periods when the market is dull are of course available to meet the first demands of a more active market, but any sustained increase in prices quickly brings about an increase in production; whence it is apparent that the mill capacity of the country is considerably greater than the normal production."

We take the following from an address by Mr. Graves, Chief Forester, published in "American Lumberman" of May 9, 1914:

"I presume that there are not less than 75,000 to 100,000 owners of timber lands, not including small tracts attached to farms. It may be said that the majority of these timber land owners are desirous of operating, selling the stumpage, or selling their land outright. As a result of the feverish haste to cut and manufacture timber there was naturally an overproduction of lumber, reaction, and demoralization of the market. Curtailment of output responding to price recessions did not, however, take place readily, because of the pressure to keep cutting even after prices had fallen. Owners who had mortgaged their property heavily were obliged to keep on operating

in order to meet interest on their obligations, maintain their plants, and hold their organizations. Decreased profits through a lower priced product and increased cost of production doubtless required these same men to cut a larger amount of timber than otherwise would have been needed to carry them along. Other owners, who, for other reasons, were financially weak, were obliged to continue cutting. In many instances increased taxation has tended still further to force operation. Overproduction, therefore, continued and a depressed market became still further depressed, with the consequences of local demoralization, numerous failures, and the various other results which follow depression in any industry. As long as there exists a constant pressure to place upon the market more timber than can be absorbed instability will continue."

(i) Forced Cutting.

It should be kept in mind that the excess production in many cases is really not voluntary or desired by the manufacturer, who realizes, better than anyone else possibly can, the inevitable result. But conditions and causes over which he has no control compel a policy (if it can be called such) which in the end results to his loss and disadvantage. Mr. Graves spoke of this condition in the address just referred to, from which we take the following excerpt:

"From a conservation standpoint the present situation is an exceedingly unfortunate one. Forced cutting under poor market conditions means poor utilization, for a great deal of the low grade material is left in the woods. It is estimated that in some sections this waste is 30% greater than it was six years ago. Under such conditions the care of second growth and the encouragement of new growth have little interest for operators. Fire protection receives little attention except where it is necessary to protect valuable standing timber. While owners are now in many sections of the country doing much more than formerly to protect at least their merchantable timber from fire the depletion of the supplies is going on with a rapidity which operators

themselves, who are practically obliged to cut with a great deal of waste, much deplore. It is perfectly clear; therefore, that both from the standpoint of the permanent welfare of the lumber industry and from the standpoint of the interests of conservation the country is losing. I do not need to recount to you the loss to the public, when a great industry is demoralized. It is not merely a loss to operators and stockholders in operating companies but a severe loss to those who are thrown out of employment or who have irregular employment, and an economic depression results which is shown in the diminished prosperity of whole communities. From the standpoint of conservation the public is suffering very great loss. Its existing supplies are being used up rapidly and wastefully because of poor utilization, and these supplies are not being replaced in any adequate way."

The firm of R. E. Danaher Company of Detroit, Michigan, is employed by various banks, trust companies and bonding houses, to investigate and report on the operations of lumber companies, particularly as to whether or not the lumber companies are cutting the timber clean and in a proper manner, which is mortgaged to such banks, trust companies, etc. Mr. J. E. Danaher, President of the Company, under date of December 14, 1915, writes as follows:

"We investigated many companies in Washington, Oregon and California, and almost without exception were obliged to report that owing to the low price at which lumber was selling the companies were leaving approximately 30% more timber on the lands than would have been left during the year 1912; for instance, when prices were better.

"The timber left in this way is an absolute waste. It will never pay the lumber companies to go back after it, even if it should not be destroyed by fire, which in all likelihood it will be."

These statements of fact are but truisms, accepted by everyone conversant with the business, and the tabulations submitted by Mr. Charles S. Keith, Mr. Thorpe

Babcock and others abundantly sustain them. We have, therefore, a condition where, although for a number of years the business has been unprofitable, production was greater than demand.

These facts tend to show not only the absence of a "trust" but also the lack of necessity for more mills and more competition. These intolerable conditions within the industry, if unremedied, lead to such a merciless struggle that only the superman can survive. Public interest demands the industry. But would it not prefer a middle ground—one involving neither a subsidy to maintain in the clearly incompetent, nor pressure which eliminates even the competent and deserving and leaves success only to the accidentally strong few?

(j) Prices.

Necessarily the conditions outlined have a depressing effect on prices, and as a matter of fact the mill prices have been abnormally low for a series of years. Other than a slight spurt in 1913, since 1909 the prices have been generally unprofitable, and in many cases actual losses are shown. With prices varying from \$14.45 per M for fir in 1910, to \$10.00 or \$11.00 per M for the first six months in 1915, and with relatively a similar state of facts as to yellow pine and other woods, no demonstration or elaboration of detail is necessary to prove that the manufacture of lumber during this period generally, has been both unsatisfactory and unprofitable.

(k) Use Not Impaired by Prices.

It is not believed that the price of lumber has affected or impaired its use to any considerable extent. Owing entirely to natural causes it is somewhat higher than it was a number of years ago. This is not peculiar to lumber, since for about 20 years past the price of all commodities has been advancing. We doubt, however, when all the facts are taken into account, that lumber will be found to have advanced as much as many other com-

modities in common use. The records of the Bureau of Labor bear out this statement as to prices from 1860 to 1912. On page 149 of Bulletin 114 of this Bureau is given a table of the relative prices of various groups of commodities. Mr. Kellogg, in his work, "Lumber and Its Uses," page 161, charted the groups of commodities—farm products, foods, and lumber and building material. The result showed prices of lumber had run between the prices of farm products and food for 50 years, although with neither as high nor as low points as occurred in the two other groups. It also appeared that the prices of lumber and building material are relatively lower now than they were 50 years ago.

(1) Cost of Manufacturing.

The cost of manufacture, as at present conducted, is at about the lowest possible point. Reductions in wages have been compelled through no fault of the manufacturer. Either reductions or close-downs were inevitable. Mr. Keith pointed out how the economies that had to be practiced so far as labor is concerned operated in two ways: reduction in number employed and reduction in wages from 10% to 25% of those employed. The loss to labor was enormous, and none regretted the necessity which compelled it more than did the employers. With all the economies practiced, the tabulations show that, if fair allowances were made for proper charges, actual loss in operation resulted. Reducing wages is neither pleasing to the employee nor does it give any satisfaction to the employer. It was not, however, a question of choice, but of necessity. No business man as a matter of choice cuts the wages of his employees. The laborer is worthy of his hire, the operator is entitled to a fair profit, and a satisfied employee is quite as much of an asset as a satisfied customer. Neither is it a normal condition where a perfectly legitimate business is not in a position for any length of time to pay fair and just wages and receive a reasonable return on the capital invested. This is not

to say that the lumber industry should be immune from the ordinary trials and tribulations of business or should be made the recipient of special favors; but it should have a fair show—in other words, the opportunity that the character of the business requires. The taxation of timber lands, which we have heretofore discussed, is a problem in itself, but we refer to it here as one of the heavy and increasing manufacturing costs.

(m) Timber Supply.

In a general way it may be stated that the present timber supply of the United States is estimated at 2,800 billion feet of standing timber, covering about 550 million acres of forest land. The National Forests in round numbers aggregate about 160 million acres, chiefly in the Rocky Mountains and Pacific Coast States. Some cut-over lands have been purchased in the White Mountains and the southern Appalachians. There are some state forests, about 190 million acres in farm wood lots, and about 200 million acres containing about 75% of the merchantable standing timber held in private ownership. Without entering into an exhaustive discussion of this subject, it may be fairly said, even on the basis of present use, that there is no timber famine in sight, nor in our judgment will there be. The per capita consumption of lumber will unquestionably decrease, but the use of the log will increase, or, to put it another way, the waste which is and has been enormous will decrease. The waste expressed in dollars and cents would run into large figures. It is difficult to estimate it accurately, but 30% would be conservative—that is, if the cut is 40 billion feet, 12 billion feet is wasted in securing the 40 billion. At the rate of even \$3 per M this represents a direct loss of \$36,000,000 for one year. It would not take many years at this rate to pay for a first-class navy. We believe the effort to protect and conserve our forest resources should be steadily maintained. We believe they will be, and with a better understanding of the value and

use of the forests the efforts of the Forest Service will be more and more appreciated. In certain sections forests are easily reproducible. Through the working of economic laws it would seem that ultimately the forest lands will be largely owned by the Government. After the present stand is cut, it is hardly probable that private owners will be justified in engaging in reforesting the cut-over lands on a large enough scale to serve public interests, and while there may be many exceptions if tax reform and other encouragement is given, generally speaking the investment would be for too long a time, the hazard too great, and the rate of return too low for individuals to engage in it extensively, but the Federal and State governments can and will do so. Considering this factor fairly, we do not believe that the menace of a shortage of timber enters into our present calculations.

(n) Future Prices.

An analysis of the facts leads to the conclusion that the manufacturer cannot in the future hope to receive high prices for his product. His efforts will lie in the direction of endeavoring to bring about a condition where fair and stable prices will be the rule. Many factors enter into this phase of the subject, not the least of which is the effect of the substitute on the price the manufacturer can secure for his lumber. In other words, the old days when "lumber was lumber," "take it or leave it," are past, and the lumber manufacturer of today, if he is to succeed, has to be a merchant among merchants and pursue modern methods of merchandising against the aggressive and intelligent competition, not only of other woods, but of substitutes as well. We are not asking this Commission, directly or indirectly, to wage war on substitutes in order to further the interests of lumber. The substitute can only prevail as it demonstrates its usefulness and ability to fill the needs and requirements of trade. Fair competition will determine the contest as between wood and its substitutes. Our only purpose in re-

ferring to the matter is to bring out the effect of the substitute on the use of wood as preliminary to the suggestions hereafter to be made.

(o) Substitutes—Their Effect on Use and Price of Lumber.

From the Bulletin issued by Department of Commerce, May 12, 1913, on "Lumber, Lath and Shingles," we take the following excerpt (p. 3):

"Rising wholesale lumber values always bring increased production, since many mills are operating below capacity and are in a position to take advantage of better market conditions. Marked increase in the demand for lumber followed by a rapid rise in values is problematical, since wood is now being forced to compete with substitutes in many of its present uses. Over half of the lumber cut goes into buildings and rough construction, about one-tenth into boxes, a twentieth into car construction, and a fourth into other uses. Concrete, steel, fiber, and other materials are competing in all of these principal avenues of consumption and in many minor ones. Thus, in a general way, increase in the value of lumber is limited in its leading channels of use. Furthermore, the margin by which rising values may stimulate increased total production is extremely narrow and likely to be offset by other factors, such as increased cost of production. If rising stumpage values, increasing costs of production, and other influences cause lumber prices to advance, the use of substitutes for wood will increase and the total volume of lumber consumed annually will tend to decrease."

From the Bulletin issued by Department of Commerce, December 30, 1913, on "Lumber, Lath and Shingles," we take the following excerpt (p. 4):

"The greater part of the lumber produced goes into buildings and rough construction, about one-tenth into packing boxes, crates, etc., and much smaller proportions into car construction, furniture, vehicles, and a great variety of other uses. There is a strong tendency toward more permanent con-

struction in building and toward the use of materials other than wood in many other industries, and the increasing competition of other materials has doubtless operated to restrict the demand for lumber and to retard the general rise in its price which might be expected to accompany the gradual exhaustion of the available timber supply."

On May 5, 1914, Mr. Howard F. Weiss, director of the United States Forest Laboratory at Madison, Wisconsin, delivered an address on "The Merchandising of Lumber from the Standpoint of the Scientist" before the annual meeting of the National Lumber Manufacturers' Association. (Reported in full, "American Lumberman, May 9, 1914.) Mr. Weiss commenced his address by saying:

"A review of the lumber situation as it exists today is not encouraging; the demand for products is weak, prices are low, and there is every indication of *overproduction and excessive waste in operations.*" * * * "The annual lumber output in the United States approximates 40,000,000,000 feet, about 70% of which is used for buildings and for general construction." * * * "Most of this lumber now comes into direct competition with other building materials such as iron, brick, tile, and cement."

He then proceeds to review the output of certain commodities in the United States for a series of years from which we take the following:

Pig Iron

| Year | Quantity Long Tons | Avg. Price per Long Ton |
|--|--------------------|-------------------------|
| 1890 | 9,202,703 | \$16.43 |
| 1910 | 27,303,567 | 15.57 |
| The output has nearly trebled since 1890, and the unit price decreased slightly. | | |

Brick

| Year | Quantity—Thousands | Avg. Price per Thousand |
|------------|--------------------|-------------------------|
| 1895 | 6,017,965 | \$ 5.25 |
| 1910 | 9,221,517 | 5.99 |

Cement

| Year | Amount by Barrels | Avg. Price per Barrel |
|------------|-------------------|-----------------------|
| 1890 | 335,500 | \$ 2.09 |
| 1910 | 76,549,951 | .89 |

It will be noted "over 230 times as much cement is now manufactured in the United States each year as was produced in 1890 and the output is increasing." In the meantime the price is steadily decreasing.

Sand and Gravel.

| Year. | Quantity— Short Tons. | Price per Ton. |
|-----------|--------------------------|----------------|
| 1902..... | 1,848,000 | \$0.85 |
| 1910..... | 69,410,000 | .30 |

Lumber Production.

| Year. | Production in M Feet. | Av. Value per M, Board Measure. |
|-----------|--------------------------|------------------------------------|
| 1900..... | 35,084,166 | \$17.13 |
| 1909..... | 44,509,761 | 15.38 |
| 1910..... | 40,018,282 | 15.30 |
| 1912..... | 39,158,414 | 15.35 |

It should be noted that, as heretofore stated, 1900 and 1909 are the more accurate figures, whereas the other years cover output of mills reporting only.

Mr. Weiss states:

"What all lumbermen are interested in at present is an increase in price for lumber. It is the general feeling that lumber is not being sold at its true value. This question is commonly asked: 'How can the price of lumber be materially increased?' Please bear in mind that 70% of our lumber according to actual survey comes into direct competition with other building materials whose price shows no marked advancement, but whose output is increasing."

Continuing his discussion, Mr. Weiss calls attention to the findings of a special committee appointed by the American Railway Engineering Association in 1912 to determine the extent of the substitution of steel for wood

in the construction of passenger cars. This committee circularized 247 railroads operating 228,000 miles of track. A summary of its findings is here given:

| Year. | Total No. Constructed. | Per Cent Steel. | Per Cent Underframe. | Per Cent Steel | Per Cent Wood. |
|--|------------------------|-----------------|----------------------|----------------|----------------|
| 1909..... | 1,880 | 26.0 | 22.6 | | 51.4 |
| 1910..... | 3,638 | 55.4 | 14.8 | | 29.8 |
| 1911..... | 3,756 | 69.0 | 20.3 | | 20.7 |
| 1912..... | 2,660 | 68.7 | 20.9 | | 10.4 |
| Jan., 1913, undercon- struction. | 1,649 | 85.2 | 11.5 | | 3.3 |

It will be noted that in 1909 about 51% of the passenger cars constructed were of wood, while in January, 1913, only 3.3% of these cars under construction were of wood. Mr. Weiss gives it as his opinion that the same tendency from wood to steel is going on in construction of freight cars.

Certain data submitted recently in the Western Passenger Rate case before the Interstate Commerce Commission, 37 I. C. C. 1, decided December 7, 1915, shows the tendency to the steel car on the western as well as on the eastern roads. This case involved passenger fares over 47 roads operating west of Chicago. In an exhibit covering 42 of these roads (p. 36) the following facts appear:

"In 1906 there were 11,899 wooden cars, 60 steel underframe cars, and *no all steel cars in service*. In 1914 there were 13,030 wooden cars, 1,636 steel underframe cars, and *2,292 all steel cars in service*."

A statement was submitted (p. 377) by the Atchison, Topeka & Santa Fe system "reflecting what has been done in the past 10 years or more to increase the safety and add to the general comfort of the traveling public." From this statement we take but two sentences:

"Not many years ago wooden underframe open platform cars were the best that any line offered.
* * * The next step was the steel underframe;
the final step the all-steel car."

According to Forest Service figures as stated by Mr. Hazen, there were 217,000 freight cars built in 1913—of these, 27% were steel underframe and wooden superstructure; all steel except sheathing and decking, 15%; all wood box cars, 5%. About 42%, largely ore and gondola cars, were of all steel construction.

Returning to Mr. Weiss' paper, after showing that, according to Dr. Fernow, the consumption of wood (saw logs) per capita in the United States is 85 cubic feet, in Germany 15 cubic feet, and in England 13 cubic feet, he asks this question:

“How can we make the lumber business profitable without materially increasing the general price of lumber?”

We quote briefly certain answers Mr. Weiss makes to his own question:

“I feel that the key to the situation lies in better methods of manufacturing and selling lumber.”

He then elaborates this answer, and in discussing how waste could be saved says:

“In present lumber operation, lumber, which represents in general *less than 40%* of the total volume of the forest, must bear the entire expense of maintaining these operations. Is it fair to expect lumber to do this? Suppose the same principle held sway in the packing industry. Only those of us who are ultra rich could afford to eat beefsteak. I wrote to the chief chemist of Armour & Co. a few days ago and asked him to what extent the utilization of by-products in the packing industry was a myth or a reality. This is the reply he gave me:

“‘I may say that you are quite correct in your assumption that the various parts of the animal's carcass aside from the meat and hide are *utilized* more or less completely, yielding such products as beef extract, pharmaceutical preparations such as pepsin and various ductless glands, lard, oleomargarine, etc. Among the inedible products are fertilizer, lubricating and soap fats; bones serving for the manufacture of buttons, pipe bits, etc.; horns

serving for the manufacture of combs; intestines making gut strings for the manufacture of tennis rackets and musical instruments; blood albumin for finishing leather and printing cotton goods, etc.'

"Please note the variety of industries that are securing materials from the packing industry. *Wood is just as promising a raw material as beef.* Lumbermen should make a far more determined effort to appreciate this. *Waste should be converted into marketable products and compelled to relieve lumber by bearing a part of the operating cost.* When this condition is attained it will not be necessary to bolster the price of lumber sky-high in order to make what is left of the lumber industry profitable." (Italics ours.)

Taking up the question of timber holdings he said:

"I now come to a very important angle of our problem and one which must be solved if the above suggestions are to have a real punch and yield results. It is this: There must be better consolidation of timber holdings, better unity of action, and a better associated effort among lumbermen."

He then discusses and quotes portions of the speech of Charles R. Van Hise, President of the University of Wisconsin, before the Chamber of Commerce of the United States of America, February 12, 1914, entitled "Concentration of Industry in the United States of America." We quote therefrom as follows:

"'For timber the same situation exists as for bituminous coal. Extreme competition has been enforced through action against various lumber manufacturers' and dealers' association. In consequence of this the cutting of timber is now being carried on so that the wastes in operation are excessive. For only by getting the timber on the market at the lowest rates, regardless of waste, is it possible to handle the material so as to meet market conditions without loss. This is the lamentable situation created by the law in regard to a resource which will last at the present rate of exploitation for scarcely more than fifty years.'

"After pointing out these conditions and ten-

dencies, President Van Hise suggests the following corrective measures:

" 'My proposal, gentlemen, is neither regulated competition nor regulated monopoly, but reduction of competition, prohibition of monopoly, permission for coöperation, and regulation of the latter. * * *'

"The keynote of his solution is sounded in the following quotation:

" 'My proposal is that restraint of trade either by combination or contract and coöperation in limitation of output, division of territory or fixing of prices, be prohibited as far as they are inimical to the welfare of the public. Not only so, but it may be wise to make a presumption that actions of corporations along the above lines are inimical to the welfare of the public until approved by a commission. But when any act of coöperation has been approved by the appropriate commission it should be free from attack. By this simple expedient the situation becomes cleared. Coöperation for all classes of business should be allowed to continue so far as it is not inimical to the public welfare. * * *'

"It is out of the question to practice most efficient methods of utilizing waste in our timber regions on the magnitude with which we do business in this country unless there is enough waste assembled at one point to make the establishment of a by-product plant practical. A sawmill can be erected to operate on a 10-year supply of timber, or even one year, and abandon the operations with a profit, but this can not be done with a by-product plant. Such plants demand not only a comparatively large amount of material with which to operate but an amount which must be supplied for years to come. Some plants are, therefore, a stimulus to the perpetuation of forests and industry, and in this respect are markedly different from the majority of sawmills now existing."

We have quoted more from the paper of Mr. Weiss than we intended to, but it is so apt, although written nearly two years ago, and is so much in accord with views we intend to submit, representing as it does the ideas of one not personally interested, that we feel we are justified in quoting from it at length.

It is certain that substitutes are being used for every conceivable purpose, and in many instances where at one time lumber would have been the only product considered. We now have the fibre packing case, cement posts, roofings of all kinds, building and finishing materials, etc., etc. Indeed, one today can build a house from foundation to roof and not have to use one foot of lumber. There are, however, some interesting sides to this phase of the question. It is not without significance that many of the substitutes are made to *imitate* as closely as possible the *wood* whose place they are taking. Nor is it without significance that notwithstanding the terrific onslaught on wood by its competitors it still maintains itself as one of the greatest industries of the country. This alone is a most hopeful sign. Mr. Kellogg in his work, "Lumber and Its Uses," shows that notwithstanding the lowering price of substitutes for building purposes (p. 165) "the cost of brick veneer construction is 20% to 25% greater than of frame construction, and that solid brick construction is about 40% more expensive than frame construction," and (p. 166), "The builder of wood can point to numberless instances of wooden siding on houses which has given good service for 50 years or more, and to many cases of durability of more than 100 years."

(p) *Changes in Character of Output.*

There is no doubt that the past few years have wrought decided changes in the form the output takes. At one time timbers represented a large percentage of the cut. According to Forest Service statistics, the percentage of output of timbers to the cut decreased 50% from 1909 to 1915. At one time it was an accepted fact among lumbermen that in normal times the railroads *consumed* from 30% to 40% of the lumber cut, and that prosperity in the lumber industry followed good times for the railroads. This condition no longer exists. Forest Service figures for the year 1910 show use by the railroads of but 9.2% of the soft wood cut, although they built 82% as much

mileage as in 1909. In 1913 only 28% of the cut went into houses and buildings. Without going into wearisome details, it is common knowledge that for many purposes for which lumber had a monopoly of use substitutes have taken its place, and that in the future value will determine the commodity to be used for a specific purpose,—by which test lumber will have to stand or fall. Wood, however, through its inherent qualities for many purposes, has distinct advantages over any substitute, and its uses are so manifold and varied that no one need fear lest it become commercially valueless or serve no useful purpose. Its use enters into nearly every form of manufacturing activity; and instead of this use decreasing under business-like methods of sale and distribution its use, though not in the form of 20 years ago, will increase.

(q) Wider Use—Fair Return.

It would seem that when the facts are analyzed the solution lies in securing a wider use of lumber and a fair return. This certainly is the ultimate purpose of the manufacturer. While under existing conditions there is *overproduction*, it might be stated with equal truth that there is *under-consumption*, and it would appear that the most constructive policy to follow would be one having for its purpose the enlargement of markets and the increasing of use as a remedy for overproduction. This is not to say that temporarily and from time to time it may not be wise and sound business policy to limit output, but it must be apparent that such a plan will not effect a permanent cure.

We lay this principle down as axiomatic that any legitimate business is entitled to a fair profit on the investment. Indeed, stability and fair profit are synonymous with good business. Good morals, sound economics, business ethics, and the public weal support this proposition. The end of an unprofitable business is bankruptcy and consequent loss—a loss that is harmful not only to the individual but the public as well. This fair return the

lumber industry has not been receiving. We take the following excerpt from a report made by Chief Forester Henry S. Graves to Secretary of Agriculture Houston, published in "American Lumberman" of March 7, 1914:

"From 1909 to 1911 many saw mills operated at an actual loss because carrying charges on their indebtedness would not permit them to close down. One hundred and thirty mills in the two leading lumber-producing states were idle altogether."

The condition he describes as existing in 1911 became worse later.

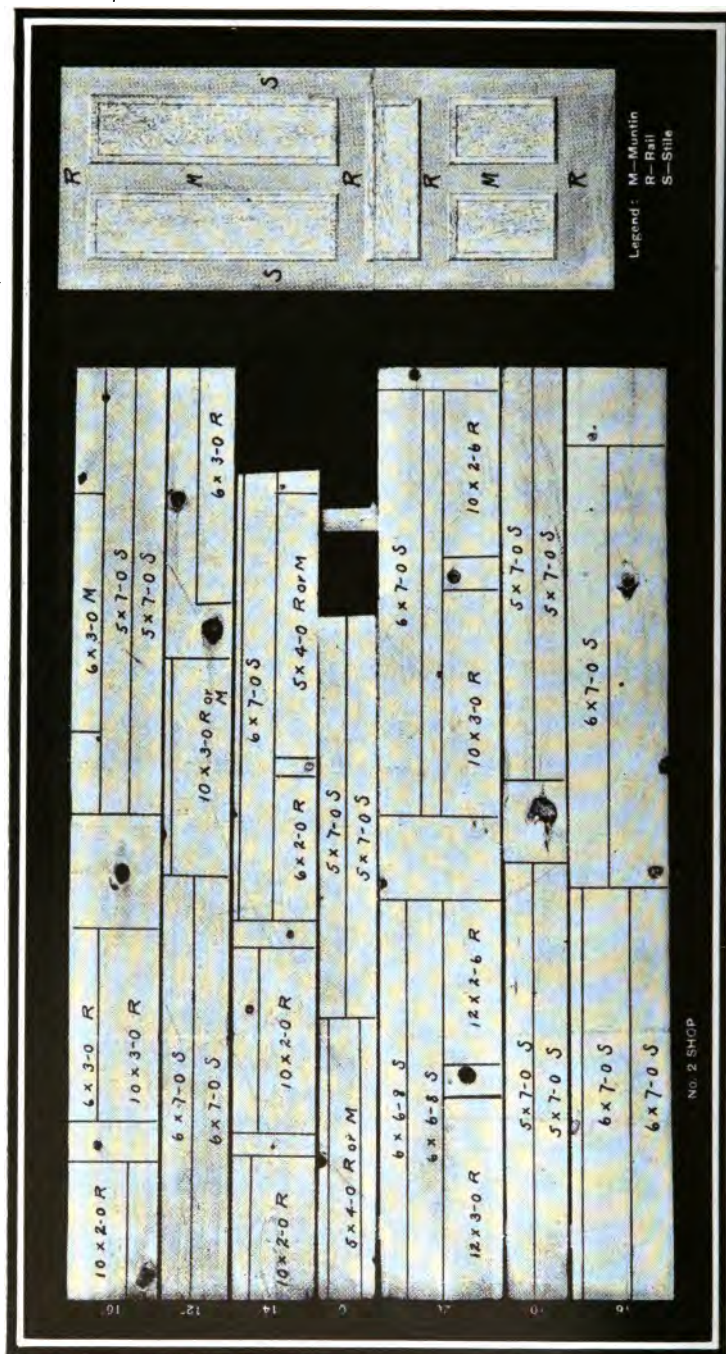
(r) *How Increased Use, Elimination of Waste, and a Fair Return May Be Secured.*

In giving our views as to how increased use, elimination of waste, and a fair return may be secured, we shall be as brief as possible. We have already explained the change in the character of output. With this change the underlying principle on which the business was being conducted also changed; but we fear the operators did not see this as clearly as they might. New wine cannot be put in old bottles, neither can the methods applicable to the production of crude articles purchased in large quantities by a few buyers be supplied to refined manufacturing and wide distribution. Fundamentally it would seem as if any manufacturer would desire to secure the greatest possible commercial product from his raw material and then distribute it as widely as possible. If this is a sound principle, then the lumber manufacturer should get every possible commercial product out of a log, precisely as does the packer with the hog. By so doing not only will waste be eliminated—a waste stated to be by Mr. Weiss about 60% between the standing tree and the lumber—but paradoxical as it may seem, the manufacturer will be enabled to sell at an average lower price, at the same time securing an average higher profit.

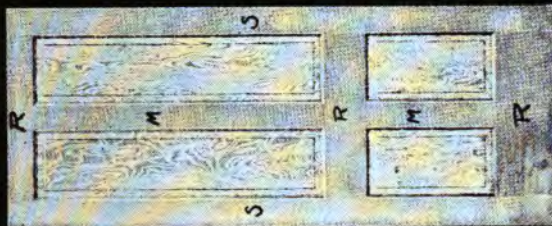
In this direction, it seems, the future of the industry lies. The desired result can be secured only by closer

utilization, or, to state it another way, more refined manufacturing, wider distribution, better merchandising, and more efficiency all around. Each of these means would be a topic in itself, but we will limit ourselves to the merest generalizations. Refined manufacturing can be carried on successfully only at the source of supply—the tree. Under any circumstances the cost of transportation is a heavy item in the lumber business. But when this cost is paid for the transportation of *waste*, it becomes almost prohibitory. Wood is in a way a peculiar commodity in relation to its further manufacture. It mixes with nothing; it is the raw material, and it is the manufactured product. For the manufacture of the ordinary products of lumber all that is required is the lumber and glue, nails, or screws. To illustrate (for it is only illustrative), we will give the facts with respect to the manufacture of the ordinary stock door in common use. These doors when finished are of the very best material, yet of what are they made? Of material that as lumber would be of low grade, because of knots and other defects and known as “shop common.” The photographs on their face show the character of lumber from which these doors are made. By cutting up the boards the various pieces entering into the manufacture of the door are saved. This results in two savings, viz.: that part of the board which is almost a waste product, and the cost of transporting the waste if carried elsewhere for manufacture. The raw product may be shipped in two forms, one “cut stock,” which means the board has been cut up so as to eliminate the knots and other defects ready to be manufactured into the door; the other, the board as it comes from the planer. Surprising as it may seem, the actual waste in working up the “cut stock” into the door is from 20% to 22%, and in the case of the board from 35% to 42%; and this is real waste, for which no substantial use exists. These facts are of record in the case of *Anson-Gilkey Hurd Co. et al. v. S. P. Co. et al.*, 33 I. C. C. 332. The freight on the waste is paid by the

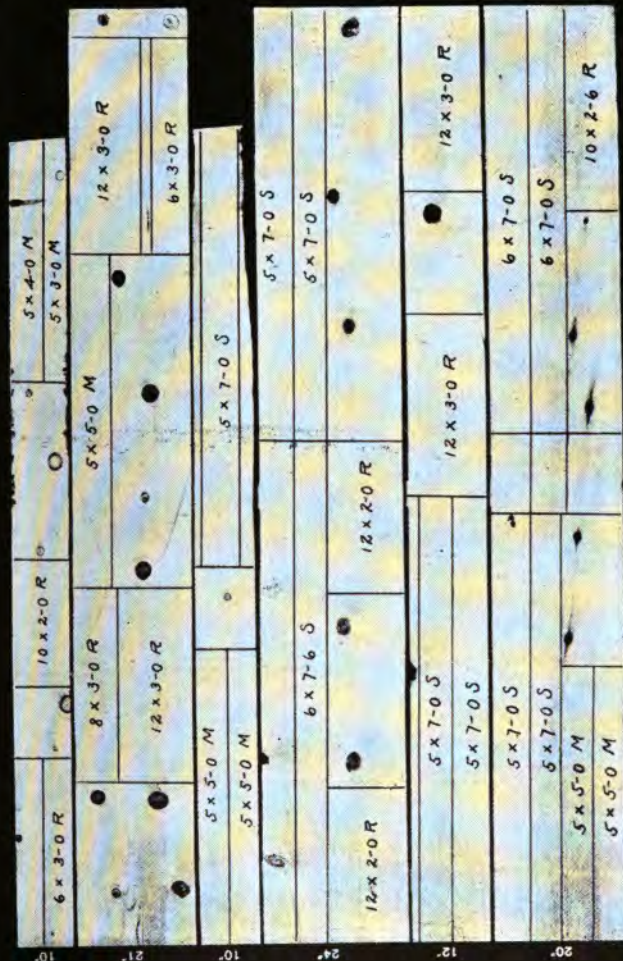
consumer—the public—who is rarely directly represented before Commissions, but whose interests it is one of the chief duties of Commissions to protect. On the common fir door, if made from the board, the transportation cost on the waste to Chicago is about 8 cents, and on the pine door about 5 cents, and less if made from “cut stock.” The door itself sells from 85 cents to \$1 and as stock doors are in common use their manufacture runs into very large quantities, it being estimated about 4,000,000 of these doors are now manufactured annually on the Pacific Coast. The imposition of charges to “take up the waste” so as to allow manufacturers at a distance from the source of supply to compete with those at the source of supply can only result in casting an unjust burden on the consumer. We cannot enter into a discussion of freight rates; but transportation cost is almost a controlling element in distribution of lumber and ordinary mill products for any considerable distance. The trend of the industry of late years has been towards more refined manufacturing; and it would seem as if the interest of the public as well as of the industry will be furthered by allowing mixtures of the usual mill products of lumber and of lumber itself to be shipped in the car at the same rate. In this way the small buyer will be able to supply his needs directly without the product going through the hands of several intermediaries. To illustrate: a small man cannot handle and does not want a carload of doors, a carload of window sash, or carloads of different kinds of lumber. What he wants is a carload of mixtures suitable to his needs, and it is on those lines that the business is being gradually built up and stabilized. The process illustrated by the doors could be further exemplified, but as it is a principle we are endeavoring to illustrate, one example is as good as another. In other words, there is no way other than by manufacturing at the source of supply that waste can be eliminated, and the refined processes of manufacture brought about. It needs no argument to show that if the various



How Door Cuttings Are Secured from No. 2 Shop



Legend: M—Muntin
R—Rail
S—Sill



Designed by THE TIMBERMAN

3 SHOP

How Door Cuttings Are Secured from No. 3 Shop
WASTE IN COMBINATION OF THREE GRADES, 25-40 PER CENT

processes of remanufacture, or saving of what is now waste through its utilization, are to be preceded by transporting the raw material to distant points, the thing cannot be done. Sound economics demand that every unnecessary cost be eliminated, and that the manufacture be carried on where it can be done at the least cost and with the greatest efficiency.

(s) *Distribution.*

But little need be said as to the necessity for wide distribution. The products of a log and their uses are so varied that it takes many markets to absorb them. A recent chart prepared by the Forest Service shows the distribution of Douglas fir on a cut of 6 billion feet by percentages. This chart shows the distribution in every state except seven. By far the larger portion was used west of the Missouri River notwithstanding the enormous preponderance of population east of that river, this fact is not to be wondered at when one considers that to Omaha the rate is 50 cents per 100 pounds and to Chicago 55 cents per 100 pounds. Green lumber weighs 3,300 pounds to the M feet, so that to Omaha on green lumber the freight charge per M feet would be \$16.50 and to Chicago, \$18.15 per M feet. Dry lumber will run from 2,000 to 2,500 pounds per thousand; so it can readily be seen why the freight rate is such an important item to the Pacific Coast lumber producer, and why the transportation of waste should be discouraged.

(t) *General Suggestions.*

We will discuss hereafter the opportunities of enlarging our export business. Better merchandising and more efficiency need no elaboration. Some, at any rate, of the intermediaries between producer and consumer will have to be eliminated—and expense will be saved in this direction as well as in others. To put it in a word, modern methods of doing business must be adopted. In this industry as in others standardized systems of accounting

must be adopted not by one but by all. Commissioner Hurley in a recent address said:

“Speaking generally, the real, constructive help must come from within. You know, and I know, that lumping all business together, the real need is for better business methods. When we were all working on a large percentage of profit, and when it was a case of filling orders at our own price, we didn’t need any help. But, gentlemen, that day is past. We now have to get down to the hard facts of business, to learn precisely what they are, where the weaknesses and losses exist, and practice the same thoroughness which characterizes trade and industry in Europe. *We need to study standard systems of bookkeeping and cost accounting.* The fact must be admitted that in order to put a selling price on a product a manufacturer must first know exactly what it costs to manufacture and sell it.

“A manufacturer who does not know, with a close degree of accuracy, what it costs him to produce the different articles he manufactures, and what it costs him to sell them, is not in a position intelligently to meet competition, and invites business disaster. * * *

“*Proper accounting for the smaller manufacturer is most essential.* It is necessary for his success that he know on what particular article he is making a fair profit and on what he is making only a narrow margin of profit, or losing money. If he has this information he can concentrate on the manufacture and sale of the product on which the profits are satisfactory.

“*Whole industries, in many instances, are suffering from a general lack of intelligent knowledge of cost.*”

(u) Association Work.

The work outlined cannot be done by the individual. Associated work is essential. Co-operation is the key that will open the door. If association work, if co-operation is to be condemned, then, unless experience is to go for naught, there is not much to hope for in the immediate present from an industry represented by nearly

50,000 separate units. There is no reason, however, to fear that association work founded on sound principles and conducted on right lines will be discouraged. On the contrary, if Commissioner Hurley's attitude fairly represents that of the Commission as a whole, co-operation will be encouraged. In the same address to which we have just referred, speaking of Association work, he said:

"There should be a greater degree of organization and of mutual helpfulness in all lines of trade and industry, so that American business may be welded into a commercial and industrial whole; the part of the government being to coöperate with business men, on request, to bring about the results that will benefit business and hence promote our national welfare.

*"One of the most effective forms of organization is the trade association. The association has a wide field of useful and proper activities. Concerns in the same industry may take common action looking toward improving their processes of manufacture, standardizing their product, improving their system of ascertaining costs, obtaining credit information, and encouraging the development of trade journals. * * **

"So today the associations of manufacturers, associations of jobbers, associations of merchants, associations of advertisers, are doing good work, and if conducted in a spirit of mutual helpfulness, with the machinery of the Government standing by subject to call, will help to solve problems and remove many of the present handicaps of business."

(v) Large Units.

While, as we have shown, there is a place and an important one for the smaller mill, it is apparent that, if there is to be complete utilization growing out of refined manufacturing, if there is to be wider distribution, if there is to be better salesmanship and increased efficiency, they can be brought about only through manufacturing at the point of production and in large units.

We will not repeat here what we have heretofore said upon this same subject. It is so plain that the smaller

operators cannot meet the exigencies of the case that no argument to demonstrate it is required. For obvious reasons it is apparent that in reality no matter how large the operation may be, control of prices in the sense in which the term is ordinarily used can never be made effective. There are too many competitive conditions to take into account for this ever to occur. If, however, the suggestions made are sound, there should result more stable conditions and a reasonable average price for the product. The suggested system of manufacturing and distribution will tend to lower cost; it will tend to conserve the raw material; and it will tend to more efficient manufacturing, which is after all the real test of good business. This system will also tend to place lumber and its products in the hands of the ultimate consumer at a fair and stable price, and the user will know what he can depend upon. While there is no desire to eliminate any useful distributing agency, it is apparent that the method outlined will work towards doing away with all unnecessary cost intervening between producer and consumer.

We have not undertaken to cover every detail of the lumber business, nor do we think it necessary to do so. There are many matters that are so peculiarly problems of the manufacturer that it seems to us to be more or less of an imposition upon the Commission to take up its time in discussing them. We do not understand that it is the thought of anyone engaged in the industry that every detail of the conduct of the business should be directed or controlled by the Commission, but it is believed that factors which, as one might say, are of universal application and of general significance should receive consideration. It is from this standpoint that we are submitting the matter. The foregoing discussion, covering what might be termed the future operations of the industry, refers almost entirely to matters which are within the power of the manufacturers to direct and control. We shall later briefly refer to some of the things which it is believed this Commission may do. We

shall not discuss at any length the powers of the Commission under the law, as that task has been undertaken by our Associate Counsel, General Boyle. If, therefore, our suggestions may seem somewhat terse or dogmatic, it will be understood they are to be read in connection with the argument on the law and powers of the Commission as presented by General Boyle.

(w) Suggested Remedies Within the Industry.

While there are many manufacturers in the various branches of the industry who are operating with great efficiency, it cannot be said that this is the rule. The following statement sets forth in brief the methods which in our opinion must be applied generally if some of the causes which are seriously hampering the industry are to be eliminated:

Better manufacturing, with closer utilization brought about by more refined processes of manufacture; better salesmanship; use of standard systems of accounting; more direct and wider distribution; co-operation and associated effort.

These methods will all tend to increase efficiency and will help to stabilize the industry. Even, however, with the manufacturer doing his full part, there are some fundamental causes for existing conditions which cannot be remedied by the individual, and which can be reached only through governmental agencies. We will address ourselves later to this branch of the subject.

Throughout this brief will be found various references to the importance of conserving the timber supply. No one could possibly be more in favor of this policy than the lumbermen. At the same time there is a *conservation* that is aided by *use*; and, while it may not be the best of form to quote one's own opinion, we shall not, perhaps, be too severely criticized if we quote from an answer given by Mr. Teal to the "American Forestry" and published in May, 1915, in response to a question as to what was the most immediate problem in connection with for-

est conservation. As the answer was not given in contemplation of any investigation of the lumber industry and was simply an opinion, we quote it for what it is worth:

“Conservation of Use.

“The instant question of forest conservation and the one pressing for solution is that of *use*. That forests must be protected from destruction of all kinds, that a vast public interest is to be conserved by their protection is now generally accepted. Attention must now be directed to encouraging and securing the greatest possible *use* of this vast national resource. Governmental agencies should from now on exercise the same zeal in securing the distribution of the manufactured product as they have shown in the past in protecting the tree. Only through *use* will results be accomplished. If this great national asset is to be realized on, if it is to serve its purpose, foreign and domestic markets must be opened up on a basis that will place one of the greatest of our industries on a sound foundation. The commercial and industrial side of the question is as important as that of protecting the forest from physical harm. In other words, *use of the product* is a most important part of its conservation, and without use it is difficult to see the necessity for wasting time or money in protection. Make the forests of value and they will be taken care of. Without this incentive there is little inducement for their preservation. It has been said truthfully, forest conservation is now 90% salesmanship and 10% forestry.”

(6) Taxation.

While this question is one to be dealt with directly by the states and local tax levying bodies, it is one that must among others be considered by this Commission in working out the problem—for it can truly be so designated—of the future of the lumber industry.

To what extent speculation in timber ownership was in the not remote past induced by statements widely circulated through official sources, and generally believed of an impending shortage in standing timber, is not of

great consequence; except to say that responsibility for the speculation referred to should not be cast entirely on the individual. What is of more importance is the fact that the belief in this idea, that the supply of standing timber would soon be exhausted, is directly responsible for some of the conditions we are now trying to remedy. It has been said by good judges that in the Northwest it takes one-half the receipts from the cut to pay the taxes on the timber holdings. Whether or not this statement is strictly accurate it does require an enormous sum of money each year to pay the taxes.

A successful operating plant in the Northwest should have at least a 15-year supply of raw material, and when this is cut that ends the operation, for there will be but the one crop. To a disinterested observer it would appear that under existing systems of taxation the cost of holding timber on a very reasonable basis of value is more than the increased growth or value will return. That the Commission may have before it reliable figures as to taxes actually paid and being paid we submit the following tabulations:

FROM EXHIBIT C.
(Page 96, Chicago Hearing.)

Cowlitz County, Washington—674.22 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|-----------|------------|----------|----------------|
| 1904..... | \$ 4,044 | \$155.69 | 38.5 |
| 1908..... | 31,200 | 748.80 | 24.0 |
| 1913..... | 18,720 | 786.24 | 42.0 |
| 1914..... | 16,322 | 661.04 | 40.5 |

Increase in valuation to 1913, 362%; in taxes, 405%.

County Cruise, 30,030 M Fir, good quality; 1,170 M Cedar; 2,892 M Hemlock.

Cowlitz County, Washington—640 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|-----------|------------|----------|----------------|
| 1904..... | \$ 6,400 | \$201.60 | 31.5 |
| 1913..... | 21,704 | 924.97 | 42.5 |
| 1914..... | 21,764 | 848.80 | 39.0 |

Increase in valuation, 1913, 240%; in taxes, 260%.

County Cruise, 54,410 M Fir, good quality; 1,405 M Hemlock.

Cowlitz County, Washington—640 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|--|------------|-----------|----------------|
| 1904..... | \$ 9,600 | \$ 321.60 | 33.5 |
| 1913..... | 30,500 | 1,494.50 | 49.0 |
| 1914..... | 14,217 | 554.46 | 39.0 |
| County Cruise, 34,089 M Fir; 111 M Cedar; 2,869 M Hemlock. | | | |

Pacific County, Washington.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|--|------------|-----------|----------------|
| 1904..... | \$ 2,560 | \$ 112.64 | 44.0 |
| 1913..... | 37,765 | 1,303.69 | 37.5 |
| County Cruise, 32,787 M Fir; 4,445 M Cedar; 1,308 M Spruce; 925 M Hemlock. | | | |

Lewis County, Washington—640 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|--|------------|----------|----------------|
| 1904..... | \$ 3,420 | \$ 95.96 | 28.0 |
| 1913..... | 20,370 | 800.55 | 39.3 |
| County Cruise, 40,283 M Fir; 8,172 M Cedar; 415 M Hemlock. | | | |

Lewis County, Washington—650 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|---------------|------------|-----------|----------------|
| 1904..... | \$ 6,530 | \$ 182.84 | 28.0 |
| 1913..... | 27,960 | 1,098.22 | 39.3 |
| 72,585 M Fir. | | | |

Snohomish County, Washington—568.55 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|-----------|------------|----------|----------------|
| 1904..... | \$ 4,800 | \$180.40 | 37.5 |
| 1913..... | 12,370 | 616.01 | 49.8 |

Skagit County, Washington—641.76 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|-----------|------------|----------|----------------|
| 1904..... | \$4,217 | \$124.41 | 29.5 |
| 1913..... | 4,675 | 229.09 | 49.0 |

Whatcom County, Washington—640 Acres.

| Year. | Valuation. | Taxes. | Rate in Mills. |
|---|------------|----------|----------------|
| 1904..... | \$ 3,840 | \$103.68 | 27.0 |
| 1913..... | 26,080 | 989.48 | 38.0 |
| County Cruise, 11,830 M Fir; 15,720 M Cedar; 2,190 M Hemlock. | | | |

EXHIBIT D.

Chehalis County, Washington.

Comparative statement showing valuation and percentage of assessment on timber lands and all other property for the years 1908, 1910, 1912, and 1914.

| | 1908 | | 1910 | |
|----------------------|--------------|-------|--------------|-------|
| | Val. | % | Val. | % |
| Timber lands..... | \$ 7,374,949 | 49.33 | \$ 8,874,712 | 47.9 |
| All other property.. | 7,535,569 | 50.67 | 9,932,589 | 52.1 |
| Total | \$14,950,518 | | \$18,807,301 | |
| | 1912 | | 1914 | |
| | Val. | % | Val. | % |
| Timber lands..... | \$15,718,118 | 47.38 | \$20,743,593 | 49.52 |
| All other property.. | 17,457,658 | 51.62 | 21,143,067 | 50.48 |
| Total | \$33,175,776 | | \$41,886,660 | |

The enormous increase in assessed valuations, in levy and in taxes is apparent. The effect of this system of taxation is bound to influence the cutting of the timber.

In Chehalis County in 1908 the timber lands carried 49 1/3% of all the taxes of the county and after six years logging the valuation for the purpose of taxation has almost trebled, its proportion of the total tax being 49.52%.

These illustrations are not isolated cases. At Tacoma Mr. J. T. Gregory (Spokane Rec., p. 34) submitted a statement showing taxes paid for a series of years on certain tracts. We take first and last year's only.

Mason County, Washington, 640 Acres.

| | |
|------------|----------|
| 1906 | \$ 48.93 |
| 1914 | 270.90 |

Lewis County, Washington, 240 Acres.

| | |
|------------|----------|
| 1906 | \$ 75.69 |
| 1914 | 257.50 |

Columbia County, Oregon, 640 Acres.

| | |
|------------|----------|
| 1906 | \$143.36 |
| 1914 | 371.38 |

It was stated that companies represented by Mr. Gregory owned about 7,000,000,000 feet of timber in Oregon and Washington (p. 34) and that the figures were fairly representative of the taxes paid on all the holdings (p. 35).

We secured from a very reliable timber owner in Portland a statement taken at random from records in his office and covering 1,280 acres in Washington and 640 acres in Oregon, or 1,920 acres in all, which shows the taxes paid on these lands from 1906 to 1914. Prior to 1906 the taxes averaged about 25 cents per acre per annum, or less than \$500 annually. The following table shows assessment and tax for a few of the years:

| Year | Assessment | Taxes |
|------------|------------|-----------|
| 1906 | \$26,755 | \$ 696.16 |
| 1910 | 35,533 | 772.15 |
| 1913 | 38,923 | 1,220.14 |
| 1914 | 35,534 | 1,170.48 |

Compare any of these amounts with the fixed tax of British Columbia on timber limits not exceeding 640 acres. There, in the Coast region, it is \$140 per year for each limit (limits, we understand, average about 600 acres) and east of the mountains it is \$100 per year. The taxes cited from our Northwest run from twice the British Columbia rental to ten times that amount. Making every allowance for lighter stand in British Columbia and lower taxes in some sections of the Northwest than in those cited, it is apparent that the fixed annual charge in British Columbia is much less than the annual tax in our country. With us, too, the annual tax is subject to the caprices of tax levying bodies. Mr. Ames' analysis, at the Tacoma hearing, of the tax levy and its effect in the state of Washington is of interest. It appears the county cruises run from 50,000 to 60,000 board feet of lumber per acre (Tacoma Rec., p. 25). In 14 counties in which his company owned land the average tax paid for the year 1913 was \$1.119 per acre, a little over 2 cents

per 1,000 on the county cruise (Spokane Rec., p. 26). To carry the timber at an average value of \$50 per acre, the interest at 6% would make \$3.00 per acre or 6 cents per thousand (Tacoma Rec., p. 27). Forest fire association work cost 2 cents per acre (Tacoma Rec., p. 28). While the average carrying charge is about 9 cents per thousand, there are places where it is 12 to 17 cents a thousand per year. That amount or even 8 cents per thousand with accumulating interest charges and increasing taxes means confiscation in a few years (Tacoma Rec., p. 28).

On a certain acreage in 1905 the average tax per acre was 22.9 cents per acre; in 1906, 36.4 cents; in 1907, 52.2 cents; in 1908, 58.2 cents; 1909, 67.4 cents; 1910, 74 cents; 1911, 80.1 cents; 1912, 85.9 cents and in 1913, \$1.119 per acre.

These illustrations demonstrate, to say the least, that taxation of timber land is a problem that in some way will have to be dealt with. We appreciate that this Commission has no power in the premises but taxes cannot be overlooked as a factor in cost of production. That high taxation enforces cutting cannot be doubted. With enforced cutting prices fall. Thus the vicious circle is started and thus the never ending round begins. There is no more difficult subject for the timber owner to deal with than that of taxation. Certainly there is none on which so much has been written and yet is so little understood. Aside from this, the ever-present effort to shift the tax on the other man and the other class of property must always be taken into account. No matter what kind of a tax is proposed, or how equitable it may be, there are always those who will oppose it in their own interest, and the public in despair falls back on the old *ad valorem* property tax regardless of its applicability, of its equity, or of its results.

Reforms of any kind move slowly, and Sisyphus himself might have been appalled if given the task of attempting to bring about reform in taxation. It is hoped that the deferred system of taxation, in so far as it is

consistent with absolute revenue requirements, may yet be adopted. This will take time, however, and it will not come until the public has a better conception of their interest not only in the proper conservation of the timber supply but also in its proper utilization. In the mean time the timber owner should at least take such interest in governmental affairs as will tend to prevent extravagance and waste in public administration. Punitive taxation based on the unfounded belief that forest owning is ever profitable can, it is hoped, be modified; and educational work can be carried on with this end in view. If after studying this question this Commission agrees with our conclusion, it can be of enormous assistance by adding, as a representative of the whole nation, its voice and influence against a system of taxation which compels untimely cutting and the waste of a natural resource with the concomitant results of depressed business, low wages, and unemployment.

(7) National Forests.

(a) History and Importance.

The people's interest in forests, either public or private, is a topic which really needs no discussion; but as the foundation of the industry rests upon the timber supply and its future is based upon its continuity, no discussion of the subject is possible without some reference to this question. In our discussion of this feature we shall draw quite largely from material gathered by the Forestry Committee of the Fifth National Conservation Congress and shall omit quotation marks, because what will be said consists largely of truisms. No authority is claimed for the report, except as it appeals to reason and common sense; and what is therein said has been said by many, though perhaps in different words. We shall also combine and use statements made by representatives of the industry who appeared before the Commission at the various hearings.

The most direct proof of public interest in the forests will be found in the statutes of the United States and of the several states. As early as 1799 the demands of our navy led Congress to provide for the purchase of timber lands for its use. The following statement, taken from "The National Forest Manual" for August 12, 1912, gives in concise form the genesis and development of our national forest legislation:

"In 1876, \$2,000 was appropriated to employ a competent man to investigate timber conditions in the United States, and on June 30, 1886, an act was approved creating a Division of Forestry in the Department of Agriculture. On July 1, 1901, this Division became the Bureau of Forestry, which, in turn, under the act of February 1, 1905, became the Forest Service.

"With the increasing realization that the Nation's forest resources must be protected, and with the immense growth of irrigation interests in the West, the necessity for retaining permanent Federal control over selected forest areas was recognized by a brief section inserted in the act of March 3, 1891 (26 Stat. 1095), which authorized the President to establish forest reserves, now called National Forests. The first exercise of this authority was in the creation of the Yellowstone Park Timber Land Reserve, proclaimed by President Harrison March 30, 1891. The mere creation and setting apart of forest reserves, however, without provision for their use, was both ineffectual and annoying to local interests, dependent upon their resources. Consequently the Secretary of the Interior, in 1896, requested the National Academy of Sciences to recommend a national forest policy. This resulted in the passage of the act of June 4, 1897 (30 Stat. 11), under which, with subsequent enactments, National Forests are now administered."

Apart from the necessity for making both present and future provisions for lumber, the public forests, irrespective of their financial value, perform functions and serve uses of national concern. They cover and protect the headwaters of streams used for navigation, irri-

gation, and power. They prevent or minimize disastrous floods which do not recognize state lines. They retard soil erosion, and in many ways have a direct effect of the greatest consequence to the country's welfare. The timber supply of the future is of vital importance to the nation, and the continuity of its production is a national problem. Nor has governmental care and interest been confined to the public forest—legislation, both national and state, has also been directed at conserving and protecting the privately owned forest because, and only because, the public has a real and vital interest in its use, conservation, and development.

Many states as well as the nation are active in fire protection and the reforestation of denuded areas, and carry on this work through funds raised by taxation. It is a significant fact that while probably three times as much forest land is in private ownership as in public ownership, no line is drawn in the matter of their protection, nor in the consideration of many questions which necessarily involve the supply irrespective of ownership. Indeed, this topic might have been passed with the simple statement that everyone, everywhere, concedes the conduct of the forests and their perpetuity to be a question of national importance. In brief, it may be said that the public interest in forests may be divided into two general classifications. First—the direct financial interest. Under this heading might properly be listed the operation of the lumber industry with all that it implies. Second—the more indirect, but none the less important, benefits accruing to the public through the existence of the forests. These benefits we have heretofore referred to as the conserving of water, prevention of soil erosion, etc., etc.

(b) The National Forest Policy.

The ownership of timber and its conversion into usable form constitute the lumber industry. Formerly ownership and conversion were less closely connected. Timber

owning and logging were, to a very much greater extent than is the case today, a distinct part of the business. While even yet there are large holdings, as well as many smaller ones in the hands of those who are timber owners or loggers, the normal tendency has been toward the securing by the operator of a supply of timber in advance, having some relation to the capacity of his mill. The amount thought necessary varies, but a ten to fifteen-year supply is generally believed essential by the more conservative operators. It is true that there has been more or less speculation in timber lands, and it is true that much of the standing timber was obtained at but trifling cost compared to the prices of today. It is also true that there has been speculation in almost any other commodity that might be mentioned, and that at times the price of every commodity has varied. Tradition has it that Manhattan Island once sold for \$24 or thereabouts, but business or values in New York are not based on conditions of centuries ago. So it is with standing timber. Prices paid for it 50 years ago, when it was of no real value, or those paid before markets were created or could be reached, are entirely beside the question we are considering. Those who own the timber now have generally either carried it for years, or have purchased it on a stumpage basis of going values. Neither is this inquiry addressed to methods by which titles were secured, or to the size of holdings. The testimony of Mr. Ames, whose company was one of the earlier investors in timber, is illuminating in tending to show that the pioneers of the West were neither lawless nor drones, and that investments then made at low figures represent large sums today, even though the ownership never changed. It should also be kept in mind that \$1.50 per acre invested 50 years ago, or even 30 years ago, represents a considerable sum today. Referring to certain pieces purchased at an early date, Mr. Ames submitted statements showing that on a purchase of \$1.25 per acre, compounding the interest at 6%, the land rep-

resented in 1909 a cost of \$35 per acre (Tacoma Rec., p. 25). If compounding the interest be thought to exaggerate the cost, simple interest alone represents a large sum. Adding taxes (for timber purposes only), Mr. Ames figures that, at the date mentioned, the particular piece to which he referred stood the company in between \$50.00 and \$60.00 per acre (Tacoma Rec., p. 25). It is not material what viewpoint one takes as to the methods used in arriving at what might be termed the investment, the *fact* remains that on such investments, no matter how the profit is figured, there must be considered, as a plain business proposition, the original investment, the maturing investment, so to speak, the taxes, and the other carrying costs. We have no desire to exaggerate these figures, but only to emphasize the fact that in order to secure any return and get back the actual money invested, these lands must be treated as really worth a reasonable and not inconsiderable sum today; and it would seem that, with conditions as they have been for the past two or three years, the reasonable minimum amount is the going value for stumpage during the same period. Moreover it needs no testimony other than that found in the statutes to show that the policy of every governmental agency for many years has been to dispose of the national resources as rapidly as possible. There is not a state in the Union which has not followed this policy, nor did the general government lag behind them. The purpose of every public agency seemed to be to get the lands, forests, or other natural resources into the hands of the individual as rapidly as possible. This policy has now to a degree been changed, and the forests undisposed of are left in the hands of the National Government. It is obvious that if taxation and carrying costs exceed increasing value, or if the Government enters into the market as an active vendor of timber in competition with that privately owned, the privately owned timber will have to be manufactured and forced upon an overstocked market, resulting in irre-

parable waste and loss. It is manifestly impossible for us in this brief to enter upon a discussion of a subject which on its face requires not only great practical knowledge, but also a thorough understanding of economic and social principles as well as of governmental policy. The most that can be expected is an exposition sufficient to demonstrate that the disposition of the national forests is a very vital part of the subject.

It will be remembered that the public forests were originally called, not "National Forests," but "Forest Reserves"; and the basic principle underlying their creation was the conservation of a supply of timber to the people of the United States against the time when there should be no other supply. They were intended as "reserves," predicated upon the idea widely circulated and generally believed that almost within a generation, unless some such step were taken, standing timber in the United States would be exhausted. With the change of name to "National Forests" there was a change of policy, compelled very largely by reasons not now necessary to discuss. It is well known, however, that there has been more or less pressure exerted to put the "Forest Service" on a self-sustaining basis at once, without giving due consideration to its many functions or to the very important and valuable part it plays in every phase of the industry's life. Scores of departments are rightly maintained, at the public cost, for assisting in the development and extension of other industries, but for some reasons not well understood the lumber industry seems to have been, if not looked on askance, at any rate not viewed with favor. Yet, if the Forest Service must rely solely on its own resources in carrying out its real purpose, namely, the preservation of the timber supply, as well as its other functions, such as technical research, increasing utilization, protection of water sheds, etc., etc., then, of course, it must turn to the forests themselves and the revenue derived therefrom for the necessary funds.

It certainly cannot be claimed that the Service is not pushing its sales, for some of its advertisements offer inducements enough to tempt almost anyone to become a manufacturer of lumber. For instance, as a competitive proposition, how can the private owner meet offers as attractive as these taken from a Forest Service advertisement? "Heavy carrying charges eliminated—no interest on timber or taxes on land or timber to be met." * * * "Skinning of land unnecessary—operator takes cream of timber by cutting mature trees only" * * * appraisals of stumpage made on basis of allowing an operating profit of from 15% to 25%." * * * "No cut-over lands to hold—operator contracts for timber alone and has no logged-off land to hold and pay taxes on." * * * "Should fire occur, the loss of timber is borne by the Government (Spokane Rec., p. 44—Langille Ex. No. 4). No one claims that the Forest Service should not sell timber under proper conditions. In many cases it may be the only supply available; there may be isolated tracts; or there may be private holdings mixed in with the public holdings. There are also community needs, as well as the needs of the settler, the miner, and the small operator to be considered. There is the question of revenues, federal and local, for the states and counties in which National Forests are situated. Plainly, there are many factors involved which require earnest study and deliberation. The Forest Service itself recognizes their importance and is doing its best to work out the proper solution. At this time the most that can be hoped for is to call this factor to the attention of the Commission, so that a question of such deep import will not be overlooked.

It may be said that the Forest Service has dual functions. As the nation's official agency for the promotion of national forest welfare and the builder of an American forest policy, it should encourage wise management of all forest resources. It should promote stability in the lumber business, recognizing on the one hand the

permanent good of the consumer and on the other, and equally, the good of one of our greatest sustaining industries and resources. Its other function is the stewardship of public property in the national forests. Its task in reconciling these functions is a most delicate one; and it is this task which should constitute an American forest policy.

It is the belief of those most directly interested and in a position to judge that thus far the Forest Service has not had the governmental assistance it should have received in solving the problem and work committed to it. It has been much criticized, and but too rarely supported. In its function as investigator and constructor of a national policy for the general promotion of forest industry the Service is notable for sincerity and integrity, and has been free from politics and truculence. It has the thorough respect and confidence of lumber and forest interests; and, barring the possibility of occasional errors in dealing with business exigencies on the part of men who are professional rather than commercial, it is both competent and helpful, and no governmental agency is considered by lumbermen more so.

As an economic proposition, we submit that overproduction of lumber is an evil to the consumer as well as to the producer, and that only harm can come from conditions which permit or encourage lumbering by incompetent and weak operators. It is our belief that the permanent good of the consumer, as well as of dependent communities, lies in stabilizing the industry on a sound and economic basis. We believe that, in order to secure economical distribution of the product at a fair minimum price, as well as the perpetuation of the resource and the industry, competent and intelligent operation is indispensable, and that the present demoralization of the industry is in itself proof of this contention.

If our views are sound, it would seem that to allow the Government to compete in the market at such a time with timber which involves less carrying cost, and which

therefore can afford the cheapest reserve for future consumers, is an economic mistake. For the Government to sell its timber generally does not at the present time benefit the consumer; for stumpage value has little or no influence upon the retail price under prevailing conditions of distribution and transportation. It does, however, injure the manufacturing industry, promote waste, and reduce the future return from the Government timber. Cut-throat competition has never been approved either by economists, governmental agencies, or fair-minded business men, and it would seem that the Government's duty to itself, to the consumer, and to an industry of such vast economic importance as is that of lumbering is to refrain from this character of competition under conditions which do not demand it, and to reserve its supply for a better financial return and for a more needed weapon against private monopoly, until such time as the market demands it.

We feel that the Forest Service, with the study it has given to the situation, understands all this; and if the Commission finds that our suggestions have merit, we look for such support at its hands as it can properly give in maintaining a sound economic policy with respect to the handling and disposition of the National Forests.

(8) Our Domestic Marine.

(a) In General.

In the domestic lumber trade no less than in the foreign trade transportation is one of the pre-requisites to successful operation. To the producers on the Pacific Coast, located as they are at long distances from the great consuming territory, freight rates as well as the transportation facilities necessarily are more important factors in their operations than is the case with those located nearer such markets. A variety of forest products may be made from the log, and wide distribution is essential if the best results are to be secured. The

rail rates are such that to compete in markets east of the Missouri River is out of the question, and only specialties of various kinds and particular grades of lumber constitute the demands that can be filled from the Pacific Coast mills. When rates on lumber exceed 40 cents per hundred, it is manifest that the transportation cost is the most important element going to make the delivered price. The freight charge on lumber to the Mississippi Valley region from the North Pacific Coast will average from \$12.00 to \$15.00 per thousand (Tacoma Rec., p. 61). To the Atlantic Seaboard the rate is 75 cents per hundred, or \$24.75 per thousand on green lumber. Except for demands for particular uses it needs no argument to demonstrate that this rate practically prohibits movement, and the Coast lumberman has shared but little in the vast lumber trade of the North Atlantic Coast states. Under the circumstances it is easily understood why none engaged in any industry looked with keener interest to the completion of the Panama Canal than did the lumbermen of the Pacific Coast states. To apprehend their feeling in this respect, one should keep in mind not only the shipping laws, but also the competition, both actual and potential, of British Columbia.

By act of Congress passed more than a century ago and still unchanged, shipping between domestic ports of the United States is confined to vessels built in this country and of course flying our flag. As to this trade, a monopoly is unquestionably created by law except as to such competition as may exist between domestic ships. On the other hand, British Columbia, being a foreign country, may use the ships of any nation to carry on trade between her ports and ports in the United States. She has the world's shipping to draw upon, whereas we have domestic ships only, and the resultant difference in charters necessarily follows.

(b) *Difference Between Ship Charters from British Columbia and Those from Pacific Coast Ports to Atlantic Ports.*

In a general way it has been stated that charters favor British Columbia shippers from \$2.00 to \$3.00 per thousand to Atlantic Coast ports on lumber, as against charters from the Pacific Coast ports of the United States to the same ports. From statements made at the various hearings it would appear that this estimate is conservative.

Mr. E. B. Hazen (Chicago Hearing, p. 93) said:

“Under our shipping laws, British Columbia can ship to any port in the United States in cheaper vessels, with smaller crews, lower wages, and can beat us from 20% to 25%. Their rail rates into this country are the same as from the Columbia River and Puget Sound districts to Eastern points of the United States, and with a water freight of \$3.00 per thousand less to the Atlantic Seaboard they have a decided advantage.”

Mr. Hines said (Chicago Hearing, p. 82):

“Because of the navigation laws of the United States, the American lumber manufacturer is compelled to ship lumber from one American port to another in an American boat, flying the American flag, built by American labor, and manned by American seamen, living under American conditions; while the Canadian manufacturer is at liberty to ship from Canadian ports on either the Atlantic or Pacific, to any American port, in any character of foreign boat. This represents conservatively an advantage of \$2.00 per M feet on shipments from Pacific ports in Canada to Atlantic ports in the United States, through the canal or otherwise. When normal conditions are restored in Canada following the present European war, the Canadian lumber manufacturers can and will undoubtedly take advantage of this situation in competing for the big markets on the American Atlantic seaboard to the detriment of the manufacturers on the American Pacific coast.

At the Portland Hearing (Tacoma Rec., p. 127), in discussing this question, Mr. William D. Wheelwright said:

"As regards shipping, the only thing I might suggest beyond what is already within your knowledge, is that when normal conditions are restored, unless some provision is made for an increase of ships that can carry lumber from the West Coast of the United States to the East Coast of the United States, the demand from the East Coast of the United States is going to be supplied by British Columbia; our lumbermen are going to be thrown out by reason of the different rates they have to pay by an American bottom over what a foreign bottom can come in here and take the lumber for under normal conditions. Where the American steamer would have to have \$12.00 a thousand, we will say, a British steamer can take it from a British Columbia port to a United States port on the East Coast, or from a United States port on this Coast to a Canadian port on the East Coast, at \$9.00 a thousand, and it does not take much to show that that is going to transfer the trade to British Columbia. And it seems to me that is a most important thing to be considered by the Commission—some arrangement by which we can ship just as cheaply from one coast to the other as the British Columbian can ship to the East Coast of the United States."

Commissioner Parry:

"Do you think there is an advantage of \$3.00 to the British Columbia vessels?"

Mr. Wheelwright:

"I put it at a low figure. Other people in the business, better able to judge, said it would be \$5.00. That is, Robert Dollar said he could transport from this Coast to the East Coast in a foreign bottom at \$7.00 a thousand when the lines are asking \$12.00. And I think it very likely the lines could do it for \$10.00. I do not think they could do it for any less."

Commissioner Parry:

"You do not know of any rates out of British Columbia ports as low as \$7.00?"

Mr. Wheelwright:

"No; it could not be done now, nor any time since the war."

Commissioner Parry:

"Nor since the canal was opened."

Mr. Wheelwright:

"But we have had ships ourselves under charter at rates that would enable us to do it at \$7.00. At three shillings and sixpence a ton you can take lumber around at \$7.00 a thousand without any trouble at all, but still three and six was rather a low rate."

Mr. Wheelwright's statement is important—as coming from one engaged in shipping and in the buying and selling of lumber, and speaking from an independent standpoint.

Mr. O. M. Clark at the same hearing (Tacoma Rec., p. 132) confirms all that Mr. Wheelwright says.

Mr. Clark stated:

"I will also say Mr. Wheelwright referred to British Columbia. The difference that he claimed between the cost of shipping I think was about right, but in order to give you an illustration, I will say that at about the same time a cargo went from British Columbia to New York another cargo went on a foreign bottom from Columbia River to Quebec. Now at that time the New York market was paying for the same identical cargo that went to Quebec \$3.00 or \$4.00 more. Now if we could have used a foreign boat or had a boat that would have delivered that cargo from the Columbia River to New York at the same price as it would to Quebec, a much longer haul, the mill man would have had the advantage of that \$3.00 or \$4.00."

At page 81 of the Tacoma Hearing, Mr. Skinner said:

Mr. Bloedel:

"Will you say a word as to the Panama Canal tolls and how it has affected us and may affect us in the future?"

Mr. Skinner:

"Of course; if the Panama Canal tolls are sup-

posed to offset the difference in cost between foreign vessels and the British Columbia ports and our ports.

"If we are to live under that law and the intercostal laws, I do not know how we can compete with them. If we can have a change in the laws without paying anything to the ship owners, then I think that the Panama Canal tolls will not be an important factor, because we can build vessels and operate them as cheaply as foreigners.

"We must have either a differential of Canal tolls or more charge against a foreign ship, or else we have got to be able to use some facilities equally as cheap as theirs."

If necessary, proof without end could be submitted showing the difference in charters as between domestic vessels engaged in domestic trade and foreign vessels engaged in trade between ports of the United States and foreign ports, on voyages of the same or greater length. That this is true is so generally known that we assume that the Commission is interested not simply in the fact that a difference exists, but in the amount of such difference. At times it has been suggested that the difference in charters as between British Columbia ports and Pacific Coast ports will be offset to some extent by the fact that the vessels engaged in the trade between ports of the United States as compared with British Columbia ports will have enough advantage in cargo both ways and in regularity of schedule to enable them to name rates more nearly on a par with British Columbia rates. This suggestion leaves out of consideration certain important facts. Domestic vessels will charge all they can get; regular lines built for carrying merchandise and general cargo can handle only limited amounts of lumber. Charters to or from British Columbia will not depend on rates charged by American vessels; and if the British Columbians are as progressive and as aggressive in this trade as they are in other trades, through their government, if in no other way, they will have the regular sailings necessary. The dominant facts, however, are that the regular lines are not fitted to care for

this trade; and if they were there is not sufficient tonnage in sight, nor can enough American built ships be secured for a long time to come, properly to care for this trade.

(c) *The Panama Canal.*

While this Commission necessarily has nothing to do with the operation of the Panama Canal, in order to treat the matter on hand in orderly sequence this subject must be referred to. Beyond question the lumber interests on the Pacific Coast were concerned in the toll question, were pleased when the law was passed exempting domestic trade from tolls, and disappointed when this law was changed and tolls imposed on domestic commerce. They felt that the exemption from tolls to some extent offset the advantages their British Columbia competitors enjoyed through the operation of our navigation laws. The repeal of this provision of the Panama Act placed foreign ships upon the same basis as those flying the American flag, and left the competitive situation, both as to charters and as to the ability to secure tonnage, as above described.

Unfortunately the opening of the Panama Canal was almost synchronous with the declaration of war in Europe. War was declared August 1, 1914, and the Canal was opened August 15, 1914. While some lumber moved to the Atlantic Coast through the Canal, the lack of tonnage and the high rates handicapped its use. With the great advance in charters in other trades, vessels pulled out of the Coast to Coast trade, which still further accentuated the dearth of available tonnage.

In addition to the foregoing, the following facts are of interest. The growing tendency among the few ship owners engaged in the transportation of lumber not only to transport the product but to merchandise it as well is a serious problem with the manufacturer. One large shipping concern operating between the Coasts is a general merchant as well as a lumber merchant. This com-

pany ostensibly has space for sale, but it cannot be secured, as they use it for their own purposes. The little space on the other lines is usually contracted for by one man, and the public has no access to it. The only relief for an independent manufacturer is to pick up an odd vessel here and there, such as may be offered, and that means a very high price.

It is conceded that the question raised by these facts is one that requires study. Our original maritime commerce was developed by the trading ship owners. The question, however, now is whether through the use of the Panama Canal the right of being both a public carrier and a dealer at the same time might not in a measure be curtailed. The carrier is a competitor with the producer. Take W. R. Grace & Co. as an illustration. They are large ship owners. They give no space, as a rule, to another mill. They buy their lumber in this country. This method has a tendency to put the control of this market in their hands. If all ship owners did this—and two or three others have started to do it—the producers and the community together would suffer.

Some manufacturers own ships; but this is not the case to any great extent. They are not in the shipping business. (Bloedel, Tacoma Hearing, pp. 13 and 14.) It must be plain whither this condition leads. If the control of the domestic transportation by sea is to be vested in the hands of a few, rates will be named that will absorb all the possible profits of the manufacturer, and he will not be one whit better off than he was before the Canal was opened. To this class of dealer the lumber industry and its operations are of no particular consequence. Having control of the transportation he has the whip hand and it is immaterial to him from which source the profits come, in freights, or in the lumber. The inevitable tendency, however, is to bear the market to the lowest possible point—an experience which we on the West Coast are going through—and to place such dealers in a position on the East Coast, where no Pacific

Coast manufacturer can compete with them. No manufacturer is afraid of competition on even terms, but a combination of this kind cannot be beaten. In other words, in this as in other trades, transportation is a prerequisite to commerce.

(d) Relief Suggested.

The intolerable situation outlined above has led those engaged in the industry to give serious consideration to securing some measure of relief. At the last session of Congress Senator Jones of Washington offered an amendment to the emergency shipping bill which would allow foreign vessels which came under the American flag to engage in the inter-coastal trade. The amendment was first accepted by the Senate, but later stricken from the bill. While, as in all issues, there are differences of opinion, it is believed that the proposal made in a paper submitted by Mr. A. B. Hammond at the hearing in San Francisco, entitled, "Inter-coastal Maritime Transportation" (San Francisco Hearing, p. 42), represents the views of the large majority of those engaged in the lumber industry on the Pacific Coast.

The gist of Mr. Hammond's proposition, as applied to the domestic trade, is that any vessel, no matter where built or how acquired, which is American owned and flies the American flag, may engage in domestic trade between parts of the United States on exactly the same terms as though built in this country. In other words, when the American flag flies at the peak, such vessel is for all purposes, if American owned, entitled to every privilege which that flag gives. Mr. Hammond contends that by so doing, "the consumer in the East and producer in the West would be in a fair way to realize the goal of each, which spells the welfare of the country,

"namely, cheap and efficient transportation through the Panama Canal."

Mr. Hammond supports his views by both facts and argument and makes a part of his paper an excerpt from

a speech made by Congressman Rufus Hardy. As the paper is printed in the record, we will not extend it here; but among other important things, Mr. Hammond says:

“It is commonly understood that today the capacity of existing United States ship building yards is contracted for until after the year 1917. For the meantime and until the United States shipbuilder realizes his world opportunity (when he will no longer oppose free ships in our intercoastal trade) we must be privileged to purchase foreign built bottoms for that trade.”

Reviewing the facts we find:

1. Wholly inadequate shipping facilities for domestic trade.
2. Such facilities as exist are in the hands of a few.
3. Some of the lines, while ostensibly acting as common carriers and quoting rates, are using all available space for their own purposes.
4. When space can be secured, high and almost prohibitive rates prevail.
5. Foreign built vessels are allowed American registry, but are not permitted to engage in coastwise trade of the United States.
6. The Panama Canal is open on equal terms to ships of all nations.
7. British Columbia is in a position to use ships under any flag between its ports and those of the United States.
8. Citizens of the United States are limited in the coastwise trade to the use of vessels built in the United States and flying the American flag.

(e) Results.

The results necessarily following from the foregoing facts are: Control of transportation by water between the Atlantic and Pacific Coasts; inadequate facilities; high rates; inability of both producer and consumer to secure the benefit of the Panama Canal; limitations of

markets; and the giving of unfair advantages to foreign competitors as against American producers in the markets of the United States.

And all for what purpose?

After nearly a century has elapsed, and with conditions entirely changed, it may safely be said that the laws of 1817 can stand an overhauling and a modification. The relief suggested, while not full and complete, would be a long step toward securing an American merchant marine and furnishing relief in our domestic markets to producer and consumer alike—in other words, to the general public.

We have assumed that when it is generally understood how deeply the public welfare is concerned in this great question of water transportation, deep sea or coastwise relief will not be long delayed.

CANADIAN BRITISH COLUMBIA.

(1) Forest Policy.

The attitude of British Columbia towards its lumber industry is that of a partner. The Government feels it to be its duty as well as its interest to aid the industry in every way possible. Accordingly we find the Forest Branch of British Columbia more active than is our Forest Service, under the stimulus of their own Government's attitude, in furthering market extension, encouraging home production, advertising the product, and through its own agencies aiding the manufacturer. When we consider the vast supply of timber in British Columbia, of substantially the same kinds as ours, and appreciate the fact that it is sold in the same markets and for the same uses, it is apparent that the competition from this territory must be recognized as a powerful factor if all phases of our own lumber problem are to be understood.

There is no question as to the governmental policy of British Columbia toward the industry. It appears in

every law and in every act. The attitude of the Forest Branch is best expressed by its representative: "It is our business to help the industry in every possible way. We are practically in partnership with it." This extends not only to export but to domestic trade as well. The entire subject is handled methodically and intelligently, with the fixed and definite purpose of furthering and fostering the industry in every way possible.

In the report of the Royal Commission of Inquiry on Timber and Forestry, 1909-1910, at page 20, after discussing the amount of standing timber in the Province, the Commission says: "To cap the climax, the Provincial policy has made the Government a sleeping partner in forest exploitation—a sharer in the profits of the lumbering industry."

We quote from the Report of the Forest Branch, 1914, above cited (after discussing the bad condition of the industry, at p. 6):

"I cannot too strongly urge that the most important duty of the Forest Branch at the present time is to assist in extending the markets for British Columbia's forest products. If the present opportunity is lost the lumber industry of this Province will have a long uphill fight in establishing its position."

(At page 22):

"The Prairie market has never yet in any one year taken over 60% of the output of these mills; the export market has not in any one year in the past decade taken 4% of the annual output. *Manifestly the only relief which will enable the lumber industry to meet its obligations is an extension of export markets.*" (Italics ours.)

(At page 23):

"The extension of markets for British Columbia is such a public necessity that it should engage the attention of the Government as the largest shareholder and as trustee of the public prosperity, though obviously no great improvement can be expected until the selling price of lumber is again greater than the cost of producing it."

(At page 24):

“The Government can rightfully help the lumber industry to advance into new markets in three ways: Firstly, by furnishing the lumberman data as to the strength and other characteristics of our timber for advertising purposes; secondly, by studying foreign markets and supplying information to the trade; thirdly, by making British Columbia products known in the markets which British Columbia manufacturers are endeavoring to enter.”

Quotations of a like tenor could be continued indefinitely, but the above are sufficient to give a fair view of the attitude of the British Columbia Government toward the lumber industry. Since the publication of the Report quoted, Mr. H. R. MacMillan, Chief Forester, has made a world-wide trip visiting various parts of the British Empire with the purpose of putting into practice, so far as he could, the recommendations made by him.

It is, and for years has been, the settled policy of British Columbia to require that all timber be manufactured in the Province. This policy has crystallized into law. The Lieutenant-Governor in Council may within certain limits permit export of certain kinds of timber, but the rule is as stated. The law prohibiting the export of logs does not apply to Crown Grant lands or to Dominion lands.

In order that there may be no question as to the substance of this policy, we quote from the above-cited Report of the Forest Branch, 1914, p. 20:

“The life of the lumber industry is the export trade. The population of the Province, which in 1912 and 1913 used one-fifth of the lumber used in the Province, does not now use one-twentieth. Thus the market for British Columbia forest products must be found almost wholly outside the borders of the Province.

“The policy of the Government for over a quarter of a century has been to restrict the export of unmanufactured products in order that a manufacturing industry based upon our large supplies of raw

material might be built up. Thus the export of logs is restricted to timber cut from lands Crown-granted prior to 1906. Export is rigidly supervised by an export patrol and by coöperative arrangement with the Dominion Customs authorities. Two seizures were made during 1914, for attempted export of improperly marked logs, while another case of attempted export in defiance of the Provincial Statute was frustrated by the inability of the exporter to secure clearance."

(2) *Timber Supply.*

The report of the Royal Commission of Inquiry on Timber and Forestry, 1909-1910, while conceding it was largely a question of conjecture, estimated the stand in British Columbia to be "240 billion feet or more" (p. 207). Since then, with more accurate information, Mr. H. D. Langille, one of the men best informed on the industry generally, places the stand at 335 billion feet. Based upon actual cruising and comparisons in regions west of the Cascade Mountains, he makes the following:

Comparison of Species.

| | Oregon. | British Columbia. |
|----------------------------|-------------|-------------------|
| Douglas Fir | 82.3% | 21.3% |
| Cedar | 2.4% | 34.4% |
| Western Hemlock | 9.1% | 28.5% |
| Spruce | 2.1% | 4.3% |
| Silver Fir | 1.5% | 11.0% |
| Miscellaneous | 2.6% | 0.5% |
| Average stand per acre.... | 41.6 M feet | 22.2 M feet |

Similar figures for Washington have not been compiled, but the percentage of cedar is greater in Washington than in Oregon (Am. Forester, Feb., 1915, pp. 131-133).

It will thus be seen that, while the percentage of each species varies, yet, speaking generally, the forests on either side of the line are alike as to kinds. It will be noted there is a marked difference in the cedar supply, as there is in the fir. British Columbia has much the larger stand of the former, while the reverse is true of

the latter. There is also the further distinction that the stand of cedar, in both Oregon and Washington, is largely interspersed with fir, whereas in British Columbia cedar occurs in almost pure stands over wide areas, both along tide waters and inland. This fact has quite an important bearing on the manufacture of shingles and the competitive situation in that branch of the industry.

(3) *Tenure.*

(a) *Three Main Forms.*

Roughly speaking, the timber land policy of British Columbia divides itself into three periods: prior to the year 1888, 1888 to 1906, and 1906 to date. Originally lands were sold in fee and known as Crown Grants. Under this system title passed to the grantee, and the lands were taxed like other real property. Later a plan was evolved under which the public interest, both in the timber and the successful operation of the industry, is recognized. Holdings under different timber tenures are as follows (figures for 1913):

| | Acres. |
|--|-----------|
| Crown Grant, including railroad lands..... | 1,669,199 |
| Leases | 945,000 |
| Licences | 8,460,000 |
| (Rep. The Forest Branch of the Dept. of Lands—1914— p. 12.) | |

It will thus be seen that by far the larger percentage of timber held by individuals is under licence. Laws have been enacted making it expedient for lease holders to exchange their leases for licences. On December 24, 1907, the Province "reserved from alienation under the Land Act by way of timber licence" all of its remaining forest area, and subsequently put into effect a sale system similar to that followed by our Forest Service. No timber, therefore, may now be acquired except by purchase under licences to cut.

A licence covers what is termed a "limit." A limit may not exceed 640 acres. It may be less, but cannot be

more. The number of licences one may hold is not limited. A licence conveys only a right to cut the timber, the title to the land not passing. The annual fee on each licence is \$140 west of the Cascades, and \$100 east of them. An annual charge of $1\frac{1}{2}$ cents per acre also is now made for fire protection. A royalty is paid when the timber is cut.

As the method used to determine the royalty marked a new departure in the disposition of timber by any government, we quote from the report of the Forest Branch of the British Columbia Department of Public Lands, for the year 1914, at pp. 6 and 7:

“Since under the system of timber licences the Crown and the licencees share between them the stumpage value of the timber held, the main object of the Act was to define the terms of the partnership. As security of tenure was essential for the development of the lumbering business, it was necessary to provide for a long term of years. Future changes in stumpage values, however, can only be guessed. Hence a sliding scale had to be devised in order that the stumpage obtained by the Government in time to come might reflect any change in timber values, up or down.

“Since these values are the difference between selling-price and cost of manufacture an exact determination of royalty could only be made after a complete audit of the books of every operating concern. As a practical matter the sliding scale had to be based on some simpler method than this, and accordingly the average selling-price of lumber was taken as the barometer of stumpage value. A certain initial increase, to take effect at the year's end, was made in the existing royalty; no further increase was to be made until the selling-price of lumber had passed the \$18 level; and the future was provided for by enacting that the stumpage payable to the Crown at any future date should be the 1915 royalty plus a certain percentage of the increase in the average selling-price of lumber over \$18.

“This ‘Timber Royalty Act’ attracted a great deal of attention in other countries, and was much dis-

cussed in the press as an important example of advanced legislation. A summary of its provisions is as follows:

"1915-19: Royalty, 85 cents and 50 cents on grade, for Coast districts; 50 cents on British Columbia rule for Southern Interior; 65 cents for Northern Interior.

"1920-24: Royalty increased by not more than 25% of any increase over \$18 in average selling-price of lumber.

"1925-29: 30% of increase over \$18.

"1930-34: 30% of increase over \$18.

"1935-39: 35% of increase over \$18.

"1940-44: 35% of increase over \$18.

"1945-49: 40% of increase over \$18.

"1950-55: 40% of increase over \$18.

"In order to obtain the necessary data upon which this sliding scale will be based, the average wholesale selling-price of lumber in the Province must be ascertained each year."

It will be noticed that the annual charge is fixed for the entire term; and, while it represents a fair tax, it is a distinct recognition of the principle that standing timber should (for obvious reasons) be classified by itself and not be subjected to the ordinary rules of taxation, if it is to be conserved for its best use. In this, as in other respects, British Columbia has dealt both wisely and practically with the problem. A resume of the history of forest alienation follows.

(b) Acquisition of Forest Lands.

(I) Crown Grants.

In the earliest days of the Province of British Columbia timber lands were acquired by purchase at the same rates as any other land, or else by grant from the Crown. Such grants were made without reservations of royalty, and the export of logs was not prohibited. There were no restrictions as to the area which might be purchased. In 1888 a royalty of 50 cents per M feet was imposed upon such timber lands as might subsequently be Crown granted.

(II) Leases.

As early as 1870 leases were authorized. No limit was placed upon the extent of the lands to be so acquired and their tenure appears to have been perpetual. The purpose seems to have been to encourage cutting and manufacturing. Again, in 1888, the terms of leases were limited to 30 years, the annual rental was fixed at 10 cents per acre and a royalty of 50 cents per M feet was reserved on logs cut; the lease containing provisions binding the lessee to erect a mill "capable of cutting not less than 1 M feet per day of twelve hours for each 400 acres included in such lease." A ground rent of 5 cents per acre was imposed on leases granted since 1879. In 1891 a deposit of 10 cents per acre was required and authority was given to the executive to impose other conditions. In 1892 it was provided that leases should be offered to competitive bidders; and an amount equivalent to 10 cents per acre was required as a guarantee that a mill would be built. The term was reduced to 21 years. In 1895 it was enacted that thereafter leases could be obtained only of surveyed and unpreempted Crown timber lands previously offered to competitive bidding and the rental was increased to 15 cents per acre "subject to reduction to 10 cents on acquisition of a sawmill appurtenant to the leasehold." In 1899 it was provided "that if the royalty and rental paid on timber cut from a lease should amount together to less than 50 cents per acre then an additional rental should be paid making the total equivalent to 50 cents per acre;" and the required mills were to operate at least six months in every year. In 1901 provision was made for the renewal of leases for consecutive and successive periods of twenty-one years on such terms as might then be in effect. Pulp leases were provided for in that year. In 1903-1904 the granting of pulp leases was discontinued, and the ground rental on timber leases was raised to 25 cents, with provisions for reduction to 15 cents if mills of a prescribed

capacity were operated. In 1905 the granting of timber leases was abolished. Throughout this period the royalty of 50 cents per thousand was collected.

From the foregoing it will be seen that the outstanding leases differ in many particulars, and their value hinges upon the particular act under which they were issued.

Finally, in 1915, provision was made for the substitution of licences for existing leases and, in cases where the leases are such that the lessee may not expect to cut over during the life of the lease, such substitution is being generally accepted.

(III) Special Timber Licenses.

Also in 1888 the right to cut timber under licence on Crown granted and patented lands was granted under such conditions as might be imposed. The area was limited to one thousand acres and the period to one year. The licence was not transferable; and not more than one special licence could be held by one person at the same time. The fee was \$50. The licence might be renewed at the discretion of the commissioner and a royalty of 50 cents was fixed.

The purpose of the Act making these provisions seems to have been to encourage lumbering, and so to aid the development of the province; but, as in the case of our own public timber lands, the incentive of speculative value was required to awaken interest. A single limit, like a single quarter section, had no value within itself. Up to 1904, or during a period of 6 years, only 1,451 licences, embracing 928,640 acres, were issued. In 1894 the first provision was made for staking licences upon unpatented Crown lands; and in 1901 the area was reduced to 640 acres and the annual fee increased to \$100. In 1903 the annual fee was increased again to \$140 west of the Cascades and \$115 east of the Cascades; and licences could be taken out for periods not exceeding 5 years, upon payment in advance of the full amount.

In 1905 a radical change in the licence system was

made. Like our own states, the province needed returns from its domain, and inducements were offered to those who would assume ownership and contribute to the support of the government. It was enacted that all special timber licences which might thereafter be issued should be transferable and renewable each year for twenty-one years.

Thus licences were given speculative value and an immediate demand developed. Locators went forth into remote and unknown districts and staked the best timber, to the fullest extent of their ability to meet the required payment of licence fees. Many took chances on finding some person who would finance the stakings on the meager showings made as to the character of the timber found. Speculation was rife. Transfers were made at prices ranging upward from \$1 per acre, and within three years nearly 12,000 licences passed to investors. A substantial income to the province was thereby secured.

On December 24, 1907, all unalienated timber in the Province was reserved, "thus keeping in the possession of the Government all timber lands not already taken up under Crown grant, lease or licence." At that time over 15,000 licences, embracing a nominal area of 9,600,000 acres, were outstanding.

The lines of definite survey, since required, were permitted to depart from the original stakings, and the boundaries are so established as to include, so far as possible, all of the most desirable timber. When such surveys were made many licences were dropped owing to insufficient space, or stands of timber insufficient to justify carrying them. A classification of the unalienated lands may disclose extensive areas of forest lands. The irregular fringes bordering the alienated lands will doubtless be sold as logging operations extend over the private holdings.

The system under which Crown timber may now be acquired is modeled after that adopted by the Forest

Service. The "Forest Act," as passed February 27, 1912, and as amended in 1913 and 1915, lodges authority on the Minister of Lands to "from time to time offer for sale and sell by public competition a licence to cut and remove any Crown timber remaining undisposed of at the time of the passing of this Act." (See Sec. 2, Chap. 26 of the Statutes of 1913 as amended by "An Act to amend the Forest Act," 1915.)

(4) *Export Tax and Tariff.*

(a) *Export Tax.*

On account of the war, export of logs from British Columbia has been allowed. The purpose of the change and the amount of the export duty is thus stated in the Forest Branch Report, quoted above, p. 20:

"To minimize the effects of the trade depression due to the war it was found advisable on a temporary measure to allow export of logs from any lands upon the following rates:

| | Grade 1. | Grade 2. | Grade 3. |
|-----------------------|----------|----------|----------|
| Cedar | \$2.00 | \$1.50 | \$1.00 |
| Fir | .50 | .50 | .50 |
| Spruce | 2.00 | 1.50 | 1.00 |
| Pine | 2.00 | 1.50 | 1.00 |
| Hemlock | .50 | .50 | .50 |
| Balsam and Larch..... | .50 | .50 | .50" |

Of the logs exported in 1914, 41,660,300 feet B. M., or about 70%, were cedar.

(b) *Tariff.*

British Columbia has an import tax on lumber, an export tax on logs, and preferential tariffs with two other British Colonies; and it is the settled, accepted and openly avowed policy of the Province to extend the preferential system as rapidly as possible.

What might be termed the "regular" duty on lumber is 25% on all lumber planed on more than one side. Now, under a general war tax, there is an additional

duty of $7\frac{1}{2}\%$. South Africa allows a preference of 10% in its duties in favor of the British Columbia products. New Zealand allows a preference of 10% in its duties on sash and doors, wooden ware and veneer, and on manufactured wood products generally. At the present time New Zealand has no preferential duty on lumber. In the near future, no doubt, preferential duties on lumber between British Columbia and other British possessions will be the rule rather than the exception.

(5) Rail and Water Rates.

To substantially all United States markets of any consequence the rail rates are the same from British Columbia mills as from mills in the Pacific Coast states. Rail rates from the United States to Canadian markets are the same as those from competing Canadian mills. To foreign markets it may be assumed that charter rates will be substantially alike. Under existing laws, however, the British Columbia mill has a decided advantage in shipping to American markets. The breaking out of the war almost simultaneously with the opening of the Panama Canal, the resulting widespread disorganization of shipping, the scarcity of tonnage and the enormous demand for it in other directions, coupled with abnormal rates, has, it is true, so far prevented the British Columbia mills from profiting by that advantage; but it nevertheless exists. From one port to another in the United States only ships flying the flag of and built in the United States may operate. From British Columbia ports to ports of the United States ships under any flag may carry the products of our mills. The result is that, ordinarily, charters to Atlantic ports of the United States are from \$2.50 to \$3 less per thousand from British Columbia than from the Pacific Coast ports of the United States. Unless this state of affairs be remedied in the future, it will constitute a very serious handicap to the lumber industry of the Pacific Coast.

(6) Labor Conditions and Mill Supplies.

Without entering into a comparison of manufacturing costs in the United States and British Columbia, it is sufficient to say that the laws of British Columbia prohibit the employment of Oriental labor in the woods; and it seems to be the general opinion that logging operations cost more on the other side of the line than on this. In and about the mills, both saw and shingle, the employment of Orientals, to a greater or less extent, is universal. In the shingle mills by far the larger number of laborers are Chinese. At the present time American machinery is in general use; but this use is decreasing, and under the Dominion's policy, coupled with the loyalty of the Canadian lumbermen, the decrease will in the future become more marked. Whether this will result in materially decreased cost of supplies and machinery is not probable.

It must be remembered that we do no more than state facts of a general nature. Our purpose in thus stating the conditions in British Columbia is solely to call the Commission's attention to a factor that must be considered in any study of the lumber industry in the United States. British Columbia lumber is strictly competitive in all markets, and under the aggressive policy of British Columbia in furthering and aiding the industry, it is a most important factor.

THE EXPORT TRADE.

(1) Introduction.

Of late years probably no question has been the subject of more discussion in the commercial world than the need for combination and its legality in connection with export business. The importance of the development of foreign trade is so obvious, and the cost and difficulty attendant upon one entering into competitive fields so apparent, that those who have considered the problem seriously have naturally and independently been led to

the same conclusion—the necessity of coöperation. It is common knowledge that foreign governments have long since not only recognized the necessity for coöperation as between the producers, but have gone further and practically entered into partnership with their business men. In many foreign countries are found domestic combinations largely controlling both ends of the trade—the purchase and the sales price. The doubt and the uncertainty of the applications of the Sherman Act, together with vigorous prosecutions of violations regardless of the motive of the violators, may have made the business man of this country unduly cautious or timid; but such is the condition, and, until there is direct legislative action or judicial construction by the court of last resort, uncertainty and the natural desire to live within the law will unquestionably have a deterrent effect on the expansion of our foreign trade.

Those familiar with the discussions leading up to the enactment of the Federal Trade Commission Act and the Clayton Act will remember that the foreign trade question was an exceedingly live one. No affirmative action was taken by Congress to clear up the doubt as to whether or not combinations for export trade only were within the prohibitions of the Sherman Act, but this Commission, under paragraph “h” of Section 6 of the Act, was given power “To investigate, from time to time, trade conditions in and with foreign countries where associations, combinations, or practices of manufacturers, merchants, or traders, or other conditions, may affect the foreign trade of the United States, and to report to Congress thereon, with such recommendation as it deems advisable.” Pursuant to this power, the Commission has held hearings throughout the country, and has doubtless by other means conducted investigations connected with this subject. We do not understand it to be the purpose of this brief to enter into an academic discussion of the question in general, but rather to present the attitude of those engaged in the lumber industry and their reasons

for favoring combinations in export trade. Neither do we understand an elaborate discussion of the law to be either desired or desirable. Consequently we will develop this feature only as far as may be necessary to a proper consideration of the suggestions that may be made.

(2) *Distribution and Volume.*

Taking the years 1911 to 1913 as typical, the distribution of export lumber to various countries is, in the order of importance, as follows: Australia, New Zealand, West Coast of South America, China and Japan (China taking much the greater amount), United Kingdom and Europe, Africa, Mexico and Central America, other foreign countries. From 1906 to 1914, both years inclusive, the average foreign lumber shipments per annum from Oregon and Washington, as shown by figures furnished by the Pacific Lumber Inspection Bureau, amounted to 432,492,557 feet; from British Columbia, 59,286,105 feet. Business for part of the year 1914 and all of the year 1915 was seriously affected by the war, and has but little value in the consideration of this branch of the subject, although in connection with another phase, to which we will refer later, it is most significant.

The export business for the year 1913 may be considered fairly typical, both in amount and distribution. The foreign shipments of lumber from Oregon, Washington, and British Columbia for that year amounted to 600,142,246 feet B. M.; of these, 10,465,868 feet B. M. were lath, 3,959,376 feet B. M. pickets, and the balance lumber.

The lumber went to the following countries in the order and amount as follows:

| Countries. | Feet, B. M. |
|----------------------------------|-------------|
| Australia and New Zealand..... | 247,385,467 |
| West Coast of South America..... | 123,636,400 |
| China | 106,429,576 |
| U. K. and Continent..... | 45,540,955 |
| Africa | 22,575,879 |

| | |
|----------------------------------|-------------|
| Japan | 21,188,943 |
| South Sea Islands..... | 11,893,020 |
| India | 10,571,652 |
| Mexico and Central America..... | 6,491,267 |
| East Coast of South America..... | 4,429,087 |
| Total | 600,142,246 |

While there has been a considerable growth in this business, it has not been as rapid or as regular as was hoped. As an illustration: In 1907 the foreign shipments were 430,565,296 feet B. M.; in 1909, 342,195,389 feet B. M. Notwithstanding the increase in exports to the United Kingdom and the Continent (chiefly for war purposes) from 32,000,000 to 83,000,000 feet B. M. in the first nine months of 1915, the export lumber shipments of Oregon, Washington and California, as compared with the same period in 1914, fell from 431,505,774 feet to 248,154,018 feet, a loss of 183,351,756 feet.

(3) *Kinds of Lumber Exported.*

While it is our purpose later to discuss this question more in detail, it may be well to give certain facts here. In general, it may be stated that the export trade is not to any large extent restricted to the higher grades, and that if the industry were able to coöperate fully in the foreign trade a still greater percentage of low grade lumber would go foreign than is now the case.

Australia takes the highest class of merchantable lumber. This is owing to a variety of causes, not the least of which is the tariff which is graded according to size, the large sizes taking the lower tariff in order to promote manufacturing in Australia. This results in the export of large sizes for manufacture. Practically no clear lumber is shipped to Australia, as clear, except red wood from California. Flooring and stock of a like character comes from the Baltic. Port Pirie, the port of a mining section in Southern Australia, takes a very considerable quantity of lumber of low grade for mining purposes. China, a large and increasing lumber using country, takes

the lower grades. Specifications for this country call for 50% merchantable and 50% No. 2 merchantable or common. Such specifications take almost the entire product of the log with the exception of the clears and No. 3 common, sometimes termed "cull." The West Coast of South America takes a high grade of merchantable lumber, but not so high as Australia. Large size squares running from 16x16 to 30x30 for resawing purposes cover the bulk of Japan's requirements. Africa takes about the same grade as the West Coast of South America. The United Kingdom and the Continent also take a high grade of merchantable timber, although specifications ordinarily call for timbers and plank. In addition to these, they take a considerable quantity of clear "flitches" and clear vertical grain ship decking.

Since we propose to discuss in detail the possible effect of the export trade on domestic trade, we will at this point content ourselves with simply saying that the general opinion is that such effect would be beneficial.

(4) Present State of the Trade.

It would seem hardly necessary to go to any great length in setting forth the facts of export trade in lumber before this Commission. Mr. D. E. Skinner, Mr. J. H. Bloedel, and others have on sundry occasions, and in detail, presented the facts to the Commission. However, in order to make clearer what we will say hereafter we will briefly set forth the conditions as they now are and have been for a long time past. Mr. D. E. Skinner, on behalf of the lumber industry of the Northwest, gave the facts at the Tacoma Hearing (Rec., pp. 66 to 82). From his, as well as from other reliable statements supported by independent investigations, it appears that the export business is as depressed as the domestic, if not more so. The business is handled largely by intermediaries or brokers who sell to the ultimate buyer in the export trade regardless of cost to the producer, and in many cases

regardless of cost to themselves. They compete among themselves to secure orders, anticipating the lowest price they dare make f. o. b. on the lumber and on the freight, and will quote delivered price six months to a year in advance. It is easy to understand that in competing among themselves to secure the business they do not assume that they will have to pay a very high price for the lumber. Their business is as much speculating in charters as it is buying lumber. Their control of the orders puts the manufacturer largely at their mercy. With the consuming demand in the hands of these middlemen the manufacturer is without means to exercise any control over the situation, and is forced to sell at cost or less; and Mr. Skinner says: "We do sell it at cost or less" (Rec., p. 18).

Prior to the destruction in 1907 of the Port Blakely Mill by fire (Mr. Skinner is connected with this mill), 80% of its export business was done direct with its customers. This practice has been eliminated; and the owners found, on reconstructing their mills, that the brokers had secured such a hold of the market and prices that they could get as much from the broker as they could from a buyer direct. In other words, the brokers named the prices they had to sell at if they sold at all (Rec., pp. 68, 69).

What is desired is to eliminate the broker's dealing in futures and speculating in charters at the cost of the manufacturer. Mr. Skinner has not been to Australia, but states that it is his belief, and that the facts will sustain the statement, that there is a combination of buyers in Australia, where a large percentage of our exports go. We are advised that they have a buying as well as a selling agency. We on this coast have learned that if a man is not acceptable to that combination, then we had better not sell to that man; otherwise we will have to depend on his trade instead of on the trade of the greater number who are in the combination (Rec., p. 72).

As tending to substantiate Mr. Skinner's statement we

quote from page 73, Chicago hearings, of the statement made by Mr. Howard P. King of Melbourne, Australia:

“We have an association in Victoria and the timber or lumber merchants meet and coöperate together so as to fix prices. We have meetings similar to this to bring out a better feeling among the merchants. Some of the merchants break prices sometimes. The association has been in existence for the last ten years, and it gives the smaller merchant as good a chance as the bigger merchant.”

In Australia, there is a differential in duty of 15 shillings on lumber shipped in sizes less than 6x12. The rate on 6x12 and over is 5 shillings, and the rate on under 6x12 is 15 shillings and more.* The purpose is apparent to compel lumber to be shipped there in such sizes that it must be re-manufactured there instead of here (Rec., p. 75). A strong effort is being made on the part of the British Columbia government to have the Australian government give the British Columbia manufacturers a differential in duty on lumber as compared with ours of 5 shillings per thousand (Rec., p. 76).

Confirmation of Mr. Skinner's belief is also found in a work published by Mr. H. L. Wilkinson and entitled “The Trust Movement in Australia” (1913). Beginning at page 101, Chapter 9, he deals with “Combinations to Fix Prices in Timber and Brick Supplies and Printing.”

We take the following excerpts from the portion dealing with “The Timber Combine”:

“The position of the timber trade in Melbourne—and it is similar in several of the other capitals—is that the whole of the importation of the soft woods, which constitute the principal commodities in the timber business, is in the hands of half a dozen large firms, and these firms also have control over many of the hardwood mills distributed throughout the state.

“These large firms practically constitute the inner ring of the Timber Combine. They have forced all

* The duty on rough lumber into Australia is 1s per 100 feet, or 10s per M for material 6x12 and over or its equivalent; 3s per 100 feet or 30s per M for 2½x7 up to 6x12; and 3s 6d per 100, or 35s for less than 2½x7.

the other timber merchants into the Timber Merchants' Association, and by the control this Association asserts, the smaller merchants have in reality become distributing agents for these large half-dozen firms who control the whole trade. The large firms dictate the policy of the Association, which says what amount of timber shall be imported and who shall import it, what retail prices shall be charged, and virtually dictates the conditions under which most of the sawmills and country timber merchants shall work.

"The Formation of the Combine.

"The whole of the importation of soft woods being controlled by the few large timber merchants, it was very easy for them to coalesce and force every builder and timber merchant to get their soft wood timber through them. This is how the combine started. Quite apart from any difficulties there may have been for the small merchant to finance a large shipment from Europe or America, the operations of the large firms prohibited him doing so.

"An example will show how this was done and how all were forced into the combine or association. At the time of the formation of the combine, a large suburban timber merchant and sawmill owner who was 'outside' the Association, in order to get supplies of soft wood, ordered a large shipment of Oregon. At the then selling prices this merchant would have been able to quickly realize on the shipment, make a fair profit, and meet the necessary payments to the American lumber mills. The combine or the Association members, having in their yards a considerable stock of this timber, immediately the vessel was reported as about to arrive, reduced the price of this particular timber. Needless to say, the suburban merchant lost heavily on the shipment, which had to be realized to meet the bills coming due from America."

The report of Franklin H. Smith to the Department of Commerce, Special Agents Series No. 109, on "Austrian Markets for American Lumber" (1915) corroborates Mr. Skinner's statement. At page 9, he says:

“Owing to Australia’s import duty discriminating on lumber as between dressed and undressed material and further discriminating between large and small sizes—ranging from \$0.122 per 100 feet b. m. for undressed timber 6 by 12 inches (or its equivalent) or over to \$0.973 per 100 feet b. m. for dressed timber—the bulk of the lumber or timber imported is undressed. The purpose (and it works out well in actual practice) is to force the importation of large-dimension, undressed timber, so that the labor and whatever profit may accrue shall go to Australia.
* * * * *

“In a preceding paragraph a reference was made to the differentials existing in the Australian tariff on undressed timber according to size. Three dimensions are recognized, namely, timber less than $2\frac{1}{2}$ by 7 inches (or its equivalent), upon which the duty is 3s. 6d. per 100 feet (\$8.52 per M feet b. m.); timber $2\frac{1}{2}$ by 7 inches (or its equivalent) and upward and less than 6 by 12 inches (or its equivalent), upon which the duty is 3s. per 100 feet (\$7.30 per M feet b. m.); and timber 6 by 12 inches (or its equivalent) and over, upon which the duty is 1s. per 100 feet (\$2.43 per M feet b. m.). Consideration of the figures given reveals, in large measure, the reason why large dimensions are in greatest demand. * * *

“Supplies of timber for the retail and wholesale yards in Australia are secured through the medium of brokers, of whom there are about 10 with sub-agents or brokerage houses representing them directly or indirectly in the several cities. All the concerns are connected with the larger shipping houses in San Francisco, who place the business directly with the mills. As a matter of fact, one or two of the San Francisco concerns maintain their own representatives in Australia. With one or two exceptions the Australian brokerage houses have connections in London, as well as in Norway, Sweden, Germany, and Russia, and handle both the timber from the United States and the Baltic material. Most of the business is done on the basis of a $2\frac{1}{2}\%$ commission, though in times of stress even a smaller profit goes to the broker. * * *

“With the exception of only one or two, all the distributors of lumber in Sydney and suburbs are

members of the association, which has succeeded in regulating the trade to an unusual degree. Forty concerns held membership in the organization in August, 1915. It might be expected that 40 yards catering to a population of less than three-quarters of a million people would create considerable competition. By the use of a universal price list, which is strictly adhered to by the members, and an understanding as to what constitutes trade, price cutting and other business-getting features of the trade in the United States, for instance, have been eliminated. * * *

"Brokers Sell to Association Members Only.

"In Sydney all timber business must go through the yards of the members of the association. Though the individual manufacturing consumers of lumber are few in number, they must obtain their supplies through some member of the association rather than secure the benefit of lower prices in getting a part of a cargo shipment direct. The enforcement of this condition is made possible through the insertion in a contract note (the printed form being issued by the Sydney & Suburban Timber Merchants' Association) of the following clause:

" 'To facilitate coöperative lightering and tallying by the Sydney & Suburban Timber Merchants' Association this contract is subject to a rebate of 5% should the seller load or cause to be loaded in the same vessel any timber for anyone except members of the said association.' * * *

"Six yards, all members of the Timber Merchants' Association of South Australia, do all the business in imported woods in Adelaide and surrounding territory." * * *

"The trade of Perth and Fremantle is practically done by three yards, which combine in ordering a cargo from the United States. * * *

"Following the largely increased expenditures of the Government incident to the war, further changes in the tariff looking toward the production of greater customs revenue are considered inevitable. The changes may prove of a serious nature to the lumber manufacturers in the United States, especially if a

preferential duty is extended to Canada, as may result from the agitation to build up the trade between British possessions."

On conditions in New Zealand, at page 41, Mr. Smith says:

"TARIFF DUTIES—RAILWAY RATES.

"New Zealand's tariff on timber and forest products is not excessive when compared with the tariff in effect in Australia. Owing to the need of greater revenue by reason of the heavy expenditures incident to the European war, it is possible that increases will be made in the tariff during 1915. The following are the timber schedules:

| Classification. | Measurement. | Duty. |
|---|----------------------|------------------|
| Timber, sawn, dressed.. | 100 superficial ft.. | 4s. (\$0.97) |
| Timber, sawn, rough... | do. | 2s. (\$0.49) |
| Shingles | 1,000 pieces | 2s. (\$0.49) |
| Lath | do. | 2s. (\$0.49) |
| Carriage shafts, spokes, and felloes, dressed.. | Ad valorem..... | 20% |
| Bent carriage timber... | do. | do. |
| Doors and sashes, either plain or glazed with ornamental glass | do. | 30% ^a |
| Woodenware and turn- ery, n. e. i. | do. | do. ^a |
| Veneers | do. | do. ^a |

^a These articles, when imported from the United Kingdom or the British dominions, pay only 20% ad valorem."

It appears, however, that railway rates are named to protect the home product (p. 42):

"Higher Rail Rates on Imported Timber.

"While Oregon pine, California redwood, and other imported timbers are not badly handicapped by the tariff in competition with native woods, an obstruction to their wider distribution exists in the railway rates. All imported timbers, when shipped by rail, take a rate one-half greater than that for

native woods, and this 50% increase serves to bar the shipment of considerable building material into the interior. It is said that the higher rate was originally fixed because of the heavier weight per 100 feet of the woods imported from Australia as compared with the native timber. Lumber rates in New Zealand are on the basis of measurement and not weight. No correction of the rate has ever been attempted so far as American woods are concerned, because the rate has worked to the advantage of the interior sawmills."

Indeed, it may be said that Mr. Smith's report confirms all that was stated by those representing the cargo mills at the Pacific Coast hearings.

No one manufacturer can afford to send representatives abroad or to do what is necessary to exploit our lumber. The cost would be prohibitive, and if some mill did undertake it it would prove of no benefit under existing conditions. At the present time we know but little of competitive conditions in foreign markets, and the variations in price of our own product tend to create prejudice which is difficult to overcome. While the export lumber business has increased (with the exception of the years 1906 and 1907, due to the San Francisco and Valparaiso disasters, and about one other year, from the middle of 1912 to July, 1913, due to purchases abroad previous to the abnormal advances in freight rates), the manufacturers have not been able to secure even fair cost for their lumber. Mr. Skinner stated in a letter, dated March 12, 1914:

"Within a year the prices have declined \$4.00 per M feet F. O. B. value and about \$6.00 in freight rates. We could, and should, have retained a fair portion of the reduction, which represents nearly the entire value of the F. O. B. prices we are receiving now. Such violent fluctuations occurring so frequently create an unhealthy condition for the manufacturer and his employees, and is unwelcome to the purchaser, as it converts an ordinary wholesome business into one of wild speculation. The present ex-

port prices will not net the average export manufacturer \$1 per thousand above the actual cost of the labor for the production and manufacture of the timber into lumber."

We may add, as we shall hereafter demonstrate, that since the date of this letter lumber has declined still further, and in many cases manufacturers are not getting back cost.

As a remedy for these conditions, which are harmful not only to the manufacturers but to all concerned, it is proposed that foreign combinations, to handle export trade only, be permitted. It appears beyond question that with but few exceptions those actually doing the export business have no more interest in the manufacturing end of the business or the investment than the brokers on the Chicago Board of Trade have in the farm, but the lumber brokers or exporters have gradually assumed control of the markets, making sales at prices fixed by themselves for six months and one year in advance. The result has been the development of an unnatural and, so far as the manufacturers are concerned, an unprofitable method of doing business. The situation is such that the individual manufacturer can do nothing. He cannot properly exploit the foreign markets or develop the foreign trade. He is absolutely without incentive to do so. This fact, coupled with the combinations in some foreign markets which he has to meet from time to time and which he is powerless to combat, leaves him as a manufacturer helpless unless he is simply to take the gambler's chance. This is not good for him, nor for this country. It is felt that when we enter in competition for the trade of the world and must compete under the laws and customs of other nations, American manufacturers should be as little restricted as possible. As stated, it is suggested that existing conditions be met by the formation of combinations dealing only with foreign trade. It is not proposed in any way to have to do with the domestic market or to prevent any

one's engaging in foreign trade, nor to exclude any manufacturer from coöperating who may desire to do so.

Monopolistic conditions in any true sense are not sought. Indeed, there is but little possibility of a monopoly in this trade; and if the experience of the past furnishes any guide for the future there never will be any. There will always be some mill operators who will not join in such efforts. This is not intended as a reflection on their judgment or methods, but simply states a fact. Nevertheless, even those who do not desire to participate have no objection to the plan. Even with such a combination the independent operator will continue. Nor is it the desire of those who feel such combination to be necessary to prevent any one from participating, or, if he prefers, from operating independently. If the proposition is not sound economically it will not succeed; if it is, it will. The broker will continue in business, but it is proposed that he run his business and do not run the manufacturer. Through the proper study and exploitation of foreign markets it is believed that the trade can be largely increased, to the material benefit of both the producer and the consumer. Not only will the trade itself expand, but those using our lumber abroad will have its uses explained, so that they will buy what they should, and we shall sell what we ought to. Foreign markets and their needs will be studied by direct representatives of the industry. It is intended to ascertain what the foreign buyer wants and then supply those wants. If warehouses or stocks of lumber are required abroad they will be supplied; and everything possible will be done to facilitate and increase the business. The opportunity exists to bring to the United States a large and profitable business.

All this will cost money. It will cost so much that no individual could undertake it, nor could any individual otherwise meet the many demands of a successful foreign trade. It is therefore proposed to do in combination what cannot be done singly—exploit the markets of

the world for the benefit of the lumber industry of the United States. There is nothing wrong, nothing immoral, nothing unbusiness-like, nothing in restraint of trade in all of this. On the contrary, it is believed that the method proposed is sound and proper and its purpose directly in line with what all seem to desire, the development of our foreign trade. It is felt that by no other means can the export lumber trade of the Pacific Coast be lifted from its present intolerable condition, and be placed in a position where it can properly expand. There should be no satisfaction to any one in knowing that one of our great natural resources is being gradually exhausted without even the compensation of a living price or that a manufacturer is not receiving a fair and living profit, for in reality no one is permanently benefited by such a state of things. It is believed that a study of this question will convince the Commission not only that the lumber manufacturer's position is sound, but that it must be followed if the export lumber trade is to be what it should be.

Nor are we altogether left simply to argument or conjecture as to the benefits that will result from coöperation in the export lumber trade. Mr. M. B. Nelson (Chicago Rec., pp. 110 to 117) gave a very illuminating account of recent efforts to exploit the foreign trade. Failing through fear of coming into conflict with the Sherman Act to organize a large corporation to operate in the foreign trade, nine mills undertook to coöperate. We quote briefly from his statement; at page 111, he said:

"We therefore established an office in Hamburg and put in charge of that office a man who was familiar with our operations, and through some salaried salesmen and agents that he could keep in close touch with, we succeeded in developing a market for quite a number of items of stock that we had never been able to sell to that trade before.

"I might say that our reason for wanting to establish this selling organization was that I found that the man who sold our lumber over there knew nothing

about a yellow pine tree, knew nothing about a saw-mill, or why we could manufacture one item cheaper than another or anything about it. Hence, it as a rule went through three or four hands before it came to us, and it was, I might say, really just a conglomerate mass, and in order to get intelligence there we would waste too much energy through the different offices and channels through which it passed. Therefore, as I say, we developed through our own operations in a limited way sales for quite a lot of lumber that we would not have had if we had pursued the old methods; and what we accomplished in that line in the about two and a half years that we operated prior to the war, made it clear to me that much more could be accomplished if our selling energy was concentrated through one channel, and we established competent, experienced men in the different markets where yellow pine could be consumed, and developed the business along practical lines. If we could secure in some way permission to organize so that we could send the proper organization throughout Europe, South America and the West Indies, in fact, every market where yellow pine is used, with that object in view, and the expending of all of our energies in the one direction, I think we could, in the course of five years under normal conditions, double the sale of our product.

"My reason for that is this: I found, or we found, rather, that a number of markets were buying lumber from the Baltic district—

"The Chairman: The Balkans?

"Mr. Nelson: The Baltic district, what is called the Baltic district, that is, in Norway, Sweden and Russia. They had been accustomed to buying from that section, and take England, for instance, they are slow to change, much more so we found than Germany and Holland; but if we had someone that could put the information before them in a convincing manner they could be induced to use our yellow pine and our American woods.

"Take box shooks: I think they could be introduced to a very large extent; and a lot of shorts that are used for various purposes, for crating and boxing and for different uses, could be introduced also.

"Now, as to South American consumption, I am

not so familiar with conditions in that territory, but I am sure that the sale of it if intelligently handled would develop a demand that we do not now have.

"I do not know, gentlemen, that I have anything further to offer."

Again at page 113:

"Mr. Nelson: In the case of a smaller operator, or even confined to the production of our own mills, the expense of even maintaining a direct selling agency over in that country would be too great to warrant it unless the different mill operators would get together and sell through one organization, so as to give them a large amount of stock.

"Commissioner Rublee: Was it too great for your organization? That is to say, was the expense too great for your organization?

"Mr. Nelson: It would have been if confined to our own mills alone, but we bought considerable stock from neighboring mills. When we would take an order larger than we could handle ourselves, why, we would purchase what we could not furnish ourselves from outside mills, so in that way we considered the proposition profitable. But I would not consider it so for small operations.

"The Chairman: Did you find it satisfactory for your organization of nine mills?

"Mr. Nelson: Confined to them alone we would not, no, sir; but by buying some from the outside we were able to make it so."

At page 114:

"Mr. Keith: I would like to ask you also, Mr. Nelson, if the business of this country was normal, what percentage of the logs, yellow pine logs, could be economically manufactured for shipment abroad, in your judgment?

"Mr. Nelson: If you use South America and the West Indies and all of the export markets that are open to us to be properly developed, I think the entire production could be utilized. The European market before the war took only the higher grades, while the lower grades went mainly to the West Indies and South America."

At pages 114 and 115:

"Mr. Nelson: I feel sure it could, because the methods of selling our material in that country at the present time are very crude. A lot of energy is wasted for which no one receives any benefit. It is the lack of intelligence upon the part of the people who are selling as to what they could get or what they can get. For instance, a buyer over there forms an idea that he wants a certain size or certain grade. Now, he does not know how difficult it is to secure that grade. The result is he makes an inquiry of some local dealer. That local dealer sends the inquiry to the importer. The importer sends that inquiry, as a rule, to a general agent, say in London or some large place, and he in turn sends that over to what we call a local exporter over here. Then the local exporter goes to the mill with that inquiry to buy. Now, notice the number of officers and people that goes through.

"The mill man might ask him about it, but he does not know what it is going to be used for, that is to say, the local exporter does not. The mill man might ask him, 'What is it going to be used for?' and he replies, 'I don't know,' and simply says, 'This is how it was put up to me,' and so it is up to the mill man to make a price on that item. There is no going to that buyer and making him a price on something else than what is inquired for.

"The thought I have in mind is that if we had a man there who could go to this buyer or user of lumber and talk with him and ask him what it was going to be used for, and then explain to him what he could get, and the grade that he could get so much cheaper and that would also be cheaper for us to make and more profitable for us to manufacture, why, if we had an organization of that kind we could accomplish a great deal, and, as I say, we could work up a trade for a lot of lumber which is now really going to waste in this country."

Page 116:

"Commissioner Hurley: Who are your chief competitors now outside of Canada—Norway and Sweden?

"Mr. Nelson: Norway, Sweden and Russia. There is some comes from the Balkan States, but their competition is not as great as from what is called the Baltic district.

"Commissioner Hurley: Then your thought is to offset this decrease in your business and provide for the substitutes that if you had a coöperative selling organization for foreign trade it would help to increase your output and bring money into this country?

"Mr. Nelson: Yes, sir; it would relieve our conditions to that extent. It would bring in just that much more money which we do not now have, and it would develop the market and the demand for some of our low grade stuff, really, which is going to the burner or being left in the woods at the present time.

"The Chairman: Was it contemplated that the chief function in that organization which you put up to your attorneys would be to formulate a selling agency or to fix prices abroad to sell your product?

"Mr. Nelson: Well, naturally to sell you have to fix the price, you and your customer have to fix it, and as it is now, the customer fixes the price."

Page 117:

"The Chairman: The point I was directing my question to was this: It has been urged as an objection to coöperation in the foreign trade that it would lead to the fixing of prices to the detriment of the consuming public in this country, which the law now prohibits, and which is generally considered improper.

"Mr. Nelson: No, I do not think it would affect it in the least.

"The Chairman: You do not think it would necessarily follow?

"Mr. Nelson: No, sir."

It will be observed that Mr. Nelson's experience, though limited, is directly in line with what Pacific Coast manufacturers state is necessary for the development of the export trade in lumber.

The statements made by Mr. E. A. Selfridge, Jr., and Mr. C. R. Johnson at the Hearing held in San Francisco

throw further light on this question. There certain redwood operators, through a corporation called the "Redwood Export Company," have coöperated to a limited degree. The result of this coöperation and its purpose is best told in the language of the witnesses. We quote from Mr. Selfridge (San Francisco Rec., pp. 10-13):

Page 10 (Export Business):

"A brief consideration of the export business in redwood lumber is necessary in a survey of that industry, for physical reasons have warranted and impelled a certain degree of coöperation which incidentally has greatly benefited that branch of the industry. This constitutes a marked contrast to the government—compelled chaotic method of domestic distribution. At the present time this export business consists of redwood ties and rough clear redwood lumber, Australasia, United Kingdom, India and the West Coast of South America constituting the principal importing countries. The physical reasons impelling this coöperation are as follows:

(The character of the timber furnishing the product.)

"Not every, nor for that matter the whole of any log, is suited for the manufacture of these particular products. Specifications for ties allow a considerable number of knots and some sapwood. Obviously it would be uneconomical and a waste of a natural resource to manufacture ties out of logs, or that portion thereof, which may be susceptible to use in the manufacture of clear or other grades of lumber. In Humboldt County only 10% of the timber cut is adapted to the manufacture of ties; in Mendocino County about 12½%. In 1914 as much as 3,200,000 feet of ties were designated for shipment on a specified steamer and in January last another steamer took 3,926,000 feet, which was part of an order for 22,000,000 feet of ties; each of the above shipments required the united efforts of fifteen mills.

"This means, had one Humboldt County mill taken the order, that to get out this one shipment of 3,926,000 feet, it would have had to cut 39,260,000 feet of lumber, and on the entire order 220,000,000 feet, which represents about half the total production of

all redwood lumber for 1914. On the other hand, the other export product, namely, rough clear redwood lumber, requires the best quality of material—no knots or other defects are permitted. Furthermore, the dimensions of this rough, clear redwood lumber, as generally furnished, are 40% three-inch thickness and over, eight inches and upwards in width, and a large quantity of widths fourteen inches and over. Of the content of the average log but a fractional portion is suited for this class of manufacture.”

(2) *The Transportation.*

“Until within the last decade redwood was transported over-seas principally by small sailing vessels of about 500,000 feet capacity, which were loaded at the rate of about 40,000 feet per day. More recently, as everyone knows, the tramp steamer has superseded the sailing vessel and only large tramp steamers can economically be used in the Australasian, Indian and United Kingdom trade. Instead of having comparative indulgence in loading days, the manufacturer has possibly sixty days’ notice that a certain vessel will take delivery on her arrival—and then must be prepared to deliver at say the rate of 500,000 feet per day. It is not uncommon that a demurrage charge as high as from \$400.00 to \$700.00 per day is provided for, according to the size of the steamer and the market value of her time, which charge has to be paid by the mills if the dispatch contracted for is not given.

“Furthermore, when such vessel arrives, say in Humboldt Bay, in order to bring about this dispatch the quota that each mill may have to cut to contribute to the filling of such order must be manufactured and awaiting delivery on the wharf. If one mill attempted to alone execute such an order (which for the reasons stated in Paragraph 1 would be in other respects well nigh impossible), the consequences would be a degree of congestion utterly inconsistent with the simultaneous conduct of any other of its business.

“The export shipping point for Humboldt County redwood is Humboldt Bay. Mendocino County has several export shipping points. Coöperation between

the mills of the two counties has resulted in enabling exportation from the several shipping points at the times best suited therefor, having regard to seasonal conditions.

"Prior to the period of coöperation, the little export business that existed was accomplished through the uneconomical process of assembling individual shipments from each mill at San Francisco Bay for transshipment on the foreign carrier.

"The result is that in comparatively recent years coöperation in the redwood export trade has been impelled by the physical necessities of the case and to meet the growing exigencies of the situation; since 1912, and at the present time it will be found that most of this export trade has been handled through a company known as Redwood Export Company, whose stockholders represent approximately half of the redwood operations. The coöperation thus forced upon the redwood industry has disclosed many features, purely collateral and incidental, making for the expansion of the trade and the prosperity of the localities in which the industry exists.

"As consequences flowing from, rather than as causes or motives leading up to this limited coöperation, it is found that (a) there has been a relative stability of price, a matter of great moment to the purchasers of this product from the mills. The fluctuations in over-seas freight rates are embarrassing enough without adding thereto fluctuations in the price to be paid the manufacturer in the United States; (b) it is believed that a better price has been received by the manufacturer in the United States for certain grades of the exported product; (c) that the smaller redwood mills are enabled to participate in this export business; (d) that with greater stability of price in the importing country the retailer and wholesaler there are less fearful of carrying more liberal stocks, this resulting in benefit to the manufacturer in this country, owing to the increased demand that flows from the continuous ability of the retailer and wholesaler in the importing country to meet the demand of the consumer, and, furthermore, creates a steady importing demand which can be more economically and profitably contracted for far in advance of the actual time of con-

sumption of the imported product. The securing of charters or space for the transport of this product is something that must be arranged many, many months ahead; (e) with one selling agency handling practically all the export business, then, and not until then, does exploitation work become possible or produce results. In this particular the redwood industry encounters all the difficulties which usually are met with in the introduction of any new material and many others that are peculiar to itself, but which time will not permit us to enumerate. In this connection it is worthy of note that since Redwood Export Company was incorporated a very considerable tie business has been developed with India and the United Kingdom. The East Coast of South America is now engaging the attention of the company, but present transportation conditions prevent results.

"It should be added that the usual proportion of the annual cut of redwood which is exported amounts to about 12½%. As to such coöperation as there has been in the redwood export business the operators have been assured by their respective counsel that it plainly constitutes no violation of any statute of the United States—that this physically impelled coöperation without which such export business is practically impossible, plainly is sanctioned by law. Nevertheless, if other export markets are to be reached and exploited and if all the benefits are to be reaped even in those fields where there is today limited coöperation, the industry in such efforts should have the express sanction of the law, for as has been well said, uncertainty as to what is prohibited by law amounts in effect to prohibition.

"In conclusion, so far as the export business is concerned, it should be added that at the moment, no new orders are being booked and deliveries on orders taken prior to the European war are impossible, owing to shortage of bottoms. In this respect it stands on a par with the Douglas fir export business, with which no doubt your Honorable Body has become conversant while investigating that industry in Washington and Oregon."

Mr. Johnson in discussing this subject said (San Francisco Rec., pp. 20-25) :

"Mr. Boyle: You handle solely redwoods in this export company?"

"Mr. Johnson: Yes, sir.

"Mr. Boyle: How is redwood sold to the foreign consumer? Is it sold directly to him or does it pass through some intermediary channel?"

"Mr. Johnson: Almost always sold to what we call an exporting firm here."

"Commissioner Hurley: A broker?"

"Mr. Johnson: A broker.

"Mr. Boyle: So that your price to him may not determine the price that he gets at all for the product abroad?"

"Mr. Johnson: No; it would be just one factor of it.

"Mr. Boyle: What benefits have you found that this coöperative plan has given to the industry or to those mills that you represent?"

"Mr. Johnson: Well, the thing of the first importance has been the ability to fill orders by joint action, which Captain Selfridge explained very fully, especially calling your attention to a cargo of ties in which something over fifteen mills participated, and it was absolutely necessary to get the help of every one of those fifteen mills in order to fill that order. And that is so in the Australian shipments, very largely. It is perhaps less so this year, because we have gone back to a limited extent to the small sailing vessel, owing to the absence of steamers, but shipments of redwood to Australia are usually made all the way from a million feet to four million feet on large tramp steamers where they have got to be loaded very quickly, where the penalty is severe for every day's demurrage they have, making it a very dangerous proposition for a single mill to undertake such a thing.

"Mr. Boyle: What are the economies you experience as a result of coöperation?"

"Mr. Johnson: Well, the economy is very largely that we can, by doing this joint work, regulate our cutting end; we do not have to take, as we sometimes do when we are alone, an order and rush to get it out at tremendous disadvantage and then, perhaps, have a long period of famine. On that sort of order we can run more regularly on it.

"Mr. Boyle: Does your corporation tend to a monopoly of the export business? Does it tend to crowd out the other independent mills?"

"Mr. Johnson: I do not think so at all. No; I am satisfied it does not. The corporation, including these four mills, handles the lumber of any other redwood mill that so requests, on a commission of $1\frac{1}{4}\%$ (the same commission that is charged on lumber handled for the stockholders of the company). This has given a profit over expenses, and that profit has been, or will be, expended in the exploitation of these different markets that we are in or that we hope to get in. For instance, we have an agent in the Argentine Republic that we are paying by the year to try to introduce the wood. We do not expect under the present condition of shipping to be able to ship any lumber there perhaps for six months or a year, but we expect to keep him there and to work with that in view."

"Mr. Boyle: Individual plants or individual companies could not finance such an undertaking of course."

"Mr. Johnson: Well, they would not do it; it would not pay them, because the business, when it came, would have to be scattered."

"Mr. Boyle: Has your company had the effect of crippling or lessening the opportunity of other independent plants to do business?"

"Mr. Johnson: I do not think so. I think we have helped it. I am satisfied that everyone would say that we have helped it."

"Mr. Boyle: Is there any sentiment in California among the redwood operators that has come to your attention whereby the complaint has been made that your company tends to do things that are not fair to the independent operator?"

"Mr. Johnson: I have never heard of such complaint. I do not think it would be possible."

"Mr. Boyle: Why do not more people coöperate then under a plan of this kind?"

"Mr. Johnson: Well, for a number of reasons. One was it started that way with the four, which was probably all we could get into the matter at the time; another thing has been the uncertainty regarding the law. Now we believe that we are absolutely

within the law and have been so advised, but some of the other people might have different ideas. Another thing, it was thought that if it become too large, if there were too many people, so that of themselves these factors made a monopoly of the redwood business, that then it might be against the law, whereas now it would not be, and it is not possible for those four to create a monopoly.

"Commissioner Parry: What per cent of the redwood industry is represented in this company?

"Mr. Johnson: About 50% of the cut.

"The Chairman: What is the capitalization of the four mills, approximately?

"Mr. Johnson: The capitalization of the four mills I would say was 20 million dollars, principally in two of the big companies.

"Commissioner Rublee: To what extent do you act as agent for the other mills?

"Mr. Johnson: How many of the other mills do we act as agents for?

"Commissioner Rublee: To what extent? You said that you acted for the other mills in selling in the export trade on commission.

"Mr. Johnson: Yes, sir.

"Commissioner Rublee: I wondered to what extent you did that.

"Mr. Johnson: Well, nearly all of them sell their lumber to us; some do not; some do sometimes and not at other times.

"Commissioner Hurley: Did you handle that 15 million order through this association?

"Mr. Johnson: Yes, sir.

"Commissioner Hurley: Did you get a better price from the foreigners by having this association than you would have received if they had gotten the bids from the different concerns and placed it out piece-meal?

"Mr. Johnson: I do not think it would have been practical for them to have placed it piece-meal, and I think the price would have averaged just as high piece-meal. We could not, at our mill, for instance, have undertaken to load the cargo.

"Commissioner Hurley: Have you been getting a little better price under this arrangement than you received before?

"Mr. Johnson: Yes; in my judgment, we are getting a better price for the foreign lumber than we would get for the same classes of lumber sold in the local market.

"The Chairman: So these smaller independent mills have the advantage of this agency for selling their lumber abroad at half the cost that the brokers charge them for the same service if they desire to take advantage of it?

"Mr. Johnson: If they desire to take advantage of it, yes, sir.

"The Chairman: Is it generally understood the invitation is extended to them by your organization?

"Mr. Johnson: Yes, sir.

"The Chairman: Or do you pick out a favored few?

"Mr. Johnson: No; I think it is understood it is extended to everyone who wants to sell through us. Now we sell to these brokers, too, if you call the export houses the brokers. They are not really brokers; they are export houses, like the American Trading Company and W. R. Grace & Co.

"The Chairman: They are not what is commonly known as lumber broker?

"Mr. Johnson: No, they are not what is commonly known as lumber broker.

"The Chairman: They are merchants?

"Mr. Johnson: Yes.

"Commissioner Hurley: Are you interested in the retail price of your product abroad, in seeing that the brokers and the middle men do not increase the price so it will restrict the purchase of your product over there?

"Mr. Johnson: We are interested in it, but we have not as yet taken up that feature of it. We have talked about it.

"The Chairman: How do you conduct your sales? Do you negotiate direct with the buyer over there through your agent?

"Mr. Johnson: No; most of the sales have been to such shipping houses or exporters, as we call them, the American Trading Company and people who are representatives of houses in Australia or South America.

"Commissioner Hurley: If they sell this product

at an excessive price it restricts the sales, in a measure, does it not? If they add two or three pounds to the thousand to your lumber over there, does it not limit the purchase of it, in a measure?

"Mr. Johnson: Yes; it would if they asked too high a price compared with the competition of other woods.

"Commissioner Hurley: Is not that an important matter for your association to find out?

"Mr. Johnson: It is an important matter, yes, sir; and my association intends to send somebody, and keep its own agent in Australia; not as a selling agent, but to keep informed of conditions there and also to guide us as to what price is the wise price to ask in that territory. There are woods that compete with redwood there very seriously, and we not only want to get a good price, but we do not want to get that price so high that it is unwise.

"The Chairman: Yes; I would like to ask what effect this coöperative agency has had in extending foreign sales. What is the volume now compared to the volume before you were organized?

"Mr. Johnson: About 53% greater in 1915 than it was before we were organized—that is, in 1914, I mean. In 1915 it is small, on account of the shipping situation.

"The Chairman: How long ago were you organized, Mr. Johnson?

"Mr. Johnson: 1912.

"The Chairman: What volume in money would that represent?

"Mr. Johnson: The shipments in 1911 to Australia were 34 million, if I remember right.

"The Chairman: Dollars?

"Mr. Johnson: Thirty-four million feet; that would be about a million dollars.

"Commissioner Rublee: That was to Australia alone?

"Mr. Johnson: To Australia alone. Last year there were something over 50 million feet.

"Commissioner Hurley: In arriving at these export prices does your association in no way take up the domestic price question?

"Mr. Johnson: Has absolutely nothing to do with any domestic shipments."

We have quoted at length from the statements of Mr. Selfridge and Mr. Johnson, as it is direct evidence not only of the necessity for coöperation in the foreign trade but also of what can be accomplished even when coöperation is limited to the most obvious needs. It would seem that the results secured justify all that the operators say as to the necessity for combinations in foreign trade; and it would be difficult to point out any advantage to anyone that would ensue from compelling these redwood operators, even were it possible under existing trade conditions, to revert to the archaic and uneconomic methods of the past.

Franklin H. Smith, from whose report we have heretofore quoted and who made a special study of this particular question with relation to the Australian trade, at page 30 of his report says:

Possibility of Increasing Trade with Australia.

"Can America's market for lumber in Australia be enlarged? This question cannot be answered in the affirmative without reservation. It is plain that under certain conditions trade between producer and distributor would be more satisfactory and probably more profitable to both parties. As is the case in other markets, the American millman by force of circumstances has been obliged to do business through a third party—a broker, shipper, indent merchant, or one falling under a similar classification. Analyzing the list of brokers doing a lumber business in Australia, only a few will be found who confine themselves to handling American timber. The point made and emphasized is the fact that these same concerns undertake to handle orders for Canadian, Baltic, and Japanese timber, or that produced in other countries—it matters not to them where the trade goes. They have no basic reason for sending orders to the United States, for the commission amounts to about the same wherever the orders are placed.

"With most of the brokerage houses the timber business is only a part of their interests, though not necessarily always the smallest, and, while the Aus-

tralian end of the business may be thoroughly understood, there is generally a decided lack of knowledge of the producing end, such as the possibilities of manufacture, costs, grading and suitability or adaptability for a given purpose. The broker has not the training or, as a matter of record, the incentive to reach out for new avenues of trade (as concrete examples, to displace Baltic flooring with Oregon pine, Baltic weatherboards with redwood, iron roofing with shingles, or Russian and German veneer with American built-up panels) until forced to do so by pressure of circumstances, as when war cuts off the usual channel of supply. Again, if more commission is to be earned by pushing a line of substitutes, such as patent wallboards, roofing, or the like, the broker would be working financial injury to himself if the lumber line were not neglected.

Advantage of an Export Combination.

“An organization of lumber export mills on the Pacific Coast of the United States would unquestionably be of great advantage to both producer and consumer. With an efficient selling agency and by the apportionment of orders among the mills, a standard price could be maintained. The price could and should be fixed at a figure that would give a living profit to the mills and at the same time eliminate the shopping around of export orders and the constant bidding of one mill against another for the business offered. A fixed price, one not subject to fluctuation each week or month, would be welcomed by the Australian buyer, for he would then know that he could buy his lumber as cheaply as his neighbor and consequently compete with him on fairer grounds. This is a feature of organization that would particularly appeal to the buyer. With prices fluctuating all the time, the buyer does not know when to place his order. A variation of 50 cents or even \$1.00 per M feet does not amount to much if only a carload or two of lumber is involved, but where 500,000 feet or perhaps 1,000,000 or more feet, comprising a cargo, are concerned, slight variations count decidedly. Low prices do not stimulate buying in the export business, since the buyer is inclined to hold off placing the

business in the belief that he can later make even a better contract. While an organization could hold prices steady, it could not advance them unreasonably because of the competition with the product of other countries with which competition is already keen.

Organization Could Do Own Shipping.

"An organization of offshore mills would be in as fair a position to undertake its own chartering at favorable rates as would the individual shipping concern. Better still, it could have its own fleet of lumber carriers, if necessary or desirable, and be able to ship as occasion demanded or even to load and ship subject to diversion, if required. The day of the sailing vessel in the Australian lumber trade was supposed to have been drawing to a close prior to the outbreak of the European war in 1914. Then, when steamer charters became impossible to make, the schooner, bark, and brig came into their own again. The Australian distributor is now inclined to believe that, after all, the sailing-vessel cargo is more satisfactory and economical than a steamer cargo of lumber, for the reasons that a smaller quantity at a time has to be turned over; that the financial obligations involved are less; that no "swamping" under daily heavy discharges, with extra costs for repiling, takes place; and that the entire cargo is consigned to one or two parties. These advantages more than offset the one disadvantage associated with sailing cargoes—the uncertainty of the time in transit.

Problem for Millmen to Solve.

"If the American lumber business in Australia is to be increased beyond the natural growth incident to the upbuilding of the country itself, it must be done by the lumbermen of the United States working in entire harmony for the common object. Certainly the interests are vast enough to warrant protection if not promotion—protection from encroachments by other competing nations. Organization is the one problem here faced, and greater problems have been solved by the lumbermen than that created by the necessity of forming an export selling concern to protect, support and extend this trade."

(5) Foreign Competitive Conditions.

An examination of the facts at the command of the Commission will sustain the statements made by the American manufacturers at this hearing. We are not dealing with a situation where the only source of supply is the United States. For instance, to the Australias there are large imports of lumber from the Scandinavian countries and the Baltic. While not so great in volume as those from this country, yet they are large, consisting principally of finished lumber, flooring, siding, etc. It is also said that, while as yet not exploited, the West Coast of South America has large areas of standing timber which need but transportation facilities to enable them not only to supply local needs but to enter into the export trade as well. British Columbia is now shipping in considerable quantities and is using every effort to increase this trade. Indeed, it is difficult to come to any other conclusion than that in the immediate future the competition between the British Columbia manufacturers and those of the United States will be very keen, and that it will be only through the most intelligent and efficient methods that our manufacturers will hold their own. There need be no doubt as to the attitude of the government of British Columbia and Canada. Their policy is openly proclaimed, crystallized into law, and acted on by those whose duty it is to administer the law and conduct the government. British Columbia assumes and acts upon the assumption that it is an active partner in the lumber industry of the Province. It is known (indeed there is no attempt to conceal the fact) that every effort is being put forth by representatives of the lumber manufacturers of British Columbia and of Canada to secure preferential tariffs on lumber with the various British possessions. In South Africa there is now to some extent a preferential tariff on lumber, the next step being to secure one with Australia and New Zealand. It cannot be doubted that after the war is over the nations engaged

in it will in every way possible seek to regain the trade that has been diverted or lost. That the British Empire will use every influence at its command to this end cannot be doubted. With the various Dominions giving freely of their men and money, with the Empire united and welded together as it never has been before by the terrible trials it is undergoing, it is but natural that, when peace is restored, the various constituent parts of the Empire should combine and coöperate in every way for the advancement of their common interests.

All that the manufacturers say with reference to the export trade being largely in the hands of intermediaries is fully confirmed from entirely independent sources. Every report will show that the picture is not overdrawn; and some method must be devised whereby those who are directly interested in this lumber industry will have more to say in connection with the sale and distribution of the products they manufacture. So long as exporters take the orders and hold back the business, the effect desired—breaking prices—is sure to follow. No such conditions could exist in the domestic trade, and the opportunity for speculation in charters does not exist. So far as the manufacturers are concerned there is now no dependability or steadiness of price. This condition benefits neither the ultimate buyer nor the producer. It is good for no one but the speculator. Fair and stable prices and good service is as important in the lumber industry as in any other legitimate business. As an illustration of how the situation is viewed by an unbiased investigator, we quote from a late report issued by the Department of Commerce dealing with Japanese markets for American lumber:

“One fact stands out clearly in connection with the Japanese business: Timbers are bought from the United States because no one of the competing countries can furnish the quality or sizes demanded at the price paid. *Low prices for Douglas fir are no incentive for the buyers in Japan to place orders. Buying*

is undertaken only when the material is actually needed. A better understanding among the producers and a close adherence to a standard list price will bring just as much business and more profit."
(Italics ours.)

Neither does it meet the case to suggest that the manufacturer does not have to sell. Theoretically he does not, but practically he does. Many of the plants are located not only on deep water, but also on the rail. Under prevailing conditions only a portion of the product is adapted for foreign trade. Regular operation promotes economy, overhead expenses are always working, and the natural desire of any operator is to dispose of his product. Indeed, if he is operating he must do so. On the other hand, while there is a limited number of exporters, there is a large number of mills, and with the orders controlled by the former, the practical result is not only to force prices to the lowest possible level but also to prevent or at any rate to handicap the better utilization of the different grades. Nor are the manufacturers always protected even in the contracts made. As has been said, the export business in lumber is quite as much a speculation in charters as it is furnishing lumber, and with variations in charters it is not at all uncommon for orders to be cancelled, leaving the manufacturer without any really practical remedy.

As Mr. Skinner stated, it is his belief, shared by others in the industry, that in some foreign markets, and more particularly in Australia and New Zealand, combinations exist among buyers covering both ends of the transaction—buying and selling. The Department of Commerce had a representative (Mr. Smith) abroad studying conditions in various foreign countries, including those referred to. His report bears out the information the manufacturers have from time to time received in the course of their business. While, as stated, there are those who doubt if even a combination such as we have suggested will prove the success its proponents claim for it, it is certain that

the individual operator today is so badly handicapped that any change would be for the better.

At one of the hearings held by this Commission in New York City Mr. John D. Ryan is reported to have said:

“This question of purchasing combinations applied with greater force to the lumber trade and with almost equal force to every other kind of business. If foreigners are to be permitted to purchase lumber in this country at the rate and under the same terms as they have been doing, this country is going to rob itself of an asset that can never be replaced.”

The laws of some of the countries dealing with monopolies, restraint of trade, etc., and their construction by the country concerned shed light upon the question under review. We are advised that by the terms of the Australian law agreements or understandings in restraint of trade are unlawful only when made:

“(a) with intent to restrain trade or commerce to the detriment of the public; or,

(b) with intent to destroy or injure by means of unfair competition any Australian industry the preservation of which is advantageous to the commonwealth, having due regard to the interests of producers, workers and consumers.” (Italics ours.)

We have not the statute before us, but the quotation is from a reliable authority. As compared with our laws, comment upon this language is unnecessary. The following quotations from the opinion of the Court in the case of *Attorney General v. Adelaide Steamship Co.*, (1913) A. C. 781, and the comments thereon may prove of interest. In this case the Australian anti-trust act was under review. We quote:

“On the 25th of July, 1913, the Lords of the Judicial Committee of the Privy Council of England returned a decision relative to the Australian Industries Preservation Act, 1906, and two amending Acts, No. 5 of 1908 and No. 29 of 1909. This was an appeal from an order from the High Court of Australia in its appellate jurisdiction reversing a decision of

Mr. Justice Isaacs, dated December 22, 1911. The case was that of the Attorney General of the Commonwealth of Australia versus the Adelaide Steamship Company, Limited.

"As stated by Lord Parker of Waddington in giving reasons for the report 'the Act of 1906 (in Australia) was a new departure in legislation and its true construction may be a matter of far-reaching economic importance. Their Lordships propose to consider its provisions with some particularity.'

"The report then refers at some length to the law as it existed prior to and at the passing of the Act in relation to monopolies and contracts in restraint of trade. The report discusses the right of the individual under common law.

"It then discusses monopolies and their interference with the common right of freedom of trade. It then takes up for discussion of contracts in restraint of trade.

The Case Involved.

"The case involved was briefly as follows: Certain collieries in New South Wales had 'vend agreements' relative to prices and these agreements at the same time controlled wages. Here we quote from the report direct:

"'For the last 40 years wages in the Newcastle coal field have, by agreement between the colliery proprietors and the workmen, varied with the selling price of coal. There is an assumed minimum price paid per ton for the best coal f. o. b. at Newcastle corresponding with an assumed minimum hewing rate. The probable price f. o. b. at Newcastle is declared for each year in advance by agreement between the colliery proprietors and workmen, and for every 1s. by which the declared price exceeds the minimum price the minimum hewing rate is increased by 4d. and the wages of certain other workmen by sums amounting to 2½d., so that out of every shilling advance in price 6½d. in all goes to the workmen. It is not the practice to vary the declared price by fractions of 1's. This method of determining wages appears to their Lordships to be eminently reasonable and well calculated to prevent labor troubles.'

The New Agreement.

"In the early years of the present century a new nearby coal field was opened which as a result of the control of steamers and the determination to sell the output, resulted in a ruinous under-selling which in turn affected old and new collieries alike and the wage-earners. Under these circumstances a meeting of colliery proprietors took place on the 5th day of January, 1906, and an association was formed to raise and maintain the price of coal. Lengthy negotiations followed and a vend agreement was prepared and assented to in April, 1906.

"Quotations from the report follow:

" "Their Lordships, therefore, propose to consider whether an unlawful intention, i. e., an intention to restrain trade to the detriment of the public, can be gathered from these agreements considered separately or as a part of the general scheme, it being admitted that each agreement constitutes a contract or combination in restraint of trade.

" "The unlawful intention alleged, is, so far as the vend agreement is concerned, in substance an intention to injure the public (1) by raising the price of coal, and (2) by annihilating competition in the Newcastle coal trade. There can be no doubt that the vend agreement was intended to preclude competition in the sense of under-selling among its members, and by this means to raise and maintain the price of coal won from the Newcastle and Maitland coal fields. *Ceteris paribus* low prices are of advantage to the consuming public, and their Lordships will assume that in default of anything to indicate that the prevailing prices were too low to afford the colliery proprietors a reasonable profit, having regard to the capital embarked and the risk involved in their trade, a combination to raise prices would from the standpoint of public interest require some justification. It can never, in their Lordships' opinion, be of real benefit to the consumers of coal that colliery proprietors should carry on their business at a loss, or that any profit that they make should depend on the miners' wages being reduced to a minimum. Where these conditions prevail the less remunerative collieries will be closed down, there

will be great loss of capital, miners will be thrown out of employment, less coal will be produced, and prices will consequently rise until it becomes possible to re-open the closed collieries or open other seams.

“ ‘The consumers of coal will lose in the long run if the colliery proprietors do not make fair profits or the miners do not receive fair wages. There is in this respect a solidarity of interest between all members of the public. The Crown, therefore, cannot, in their Lordships’ opinion, rely on the mere intention to raise prices as proving an intention to injure the public. To prove an intention to injure the public by raising prices the intention to charge excessive or unreasonable prices must be apparent. Not only can no trace be found in the vend agreement of an intention to raise the price of coal to an unreasonable extent, but such an intention is highly improbable, for it was not in the interest of the vend to charge unreasonable prices.

“ ‘In their Lordships’ opinion the decision appealed against was right, first, because so far as the Crown relied upon Section 4 (a) and Section 7 of the Act, there was no evidence (at any rate no satisfactory evidence) of any sinister intention on the part of either colliery proprietors or shipping companies; and, secondly, because so far as the Crown relied on Section 10 there was no evidence (at any rate no sufficient evidence) of injury to the public.’ ”

We also quote from another case cited by Mr. Randolph in a pamphlet entitled “Opinion on the Anti-Trust Act and Export Trade with a note on the Rule of Reason”:

“In *Northwestern Salt Co. v. Electrolytic Alkali Co.* (30 Times Law Report, 313, Feb. 12, 1914) the House of Lords gives the latest authoritative deliverance on restraint of trade at common law.

“Unquestionably the combination in question was one, the purpose of which was to regulate supply and keep up prices. But an ill-regulated supply and unremunerative prices might in point of fact be disadvantageous to the public. Such a state of things might, if it was not controlled, drive manufacturers

out of business, or lower wages, and so cause unemployment and labor disturbance. It must always be a question of circumstances whether a combination of manufacturers in a particular trade was an evil from a public point of view. The same thing was true of a supposed monopoly. In the present case there was no attempt to establish a real monopoly, for their might have been great competition from abroad or from other parts of these islands than the part which was the field of the agreement."

The Canadian laws dealing with trusts and monopolies are very instructive in this connection. Space forbids any but the briefest extracts and summaries; but the leading features can be very shortly indicated.

A conspiracy in restraint of trade is thus defined in 55,-56 V., c. 29, s. 516:

"A conspiracy in restraint of trade is an agreement between two or more persons to do or procure to be done any unlawful act in restraint of trade."

By 63-64 V., c. 46, s. 3, penalties are provided for conspiring, combining, agreeing, or arranging:

"(a) To *unduly* limit the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article or commodity which may be subject of trade or commerce: or,

"(b) To restrain or injure trade or commerce in relation to any such article or commodity; or,

"(c) To *unduly* prevent, limit, or lessen the manufacture or production of any such article or commodity, or to *unreasonably* enhance the price thereof; or,

"(d) To *unduly* prevent or lessen competition in the production, manufacture, purchase, barter, sale, transportation, or supply of any such articles or commodity, or in the price of insurance upon person or property."

But

"Nothing in this Section shall be construed to apply to combinations of workmen or employees for their own *reasonable* protection as such workmen or employees."

It will be noted that the acts provided against are not crimes unless they are in their nature *undue* or *unreasonable*. (The italics are ours.) Our Sherman Act makes no such distinction. In Canada an indictable conspiracy in restraint of trade must be one looking to the doing of an "*unlawful act in restraint of trade*." The Sherman Act makes *any* "conspiracy in restraint of trade" illegal. It is unnecessary to point out the difference from a practical business standpoint between a law prohibiting *undue* or *unreasonable* action and a law which prohibits *all* action except as modified by judicial interpretation. When justices of the Supreme Court will divide five to four on the question of the application or non-application of a statute, what security has a business man? What can he do but scrupulously avoid every act that might possibly be construed as coming under the literal ban of the law?

Another illustration of the Canadian attitude on this matter is furnished by the law empowering the governor to place on the free list articles in which any *undue* or *unreasonable* combination exists, *to the disadvantage of the consumers*. The significant sections of this statute read as follows:

"Whenever the Governor in Council has reason to believe that with regard to any article of commerce there exists any trust, combination, association, or agreement of any kind among manufacturers of the article or dealers therein to *unduly* enhance the price of the article, or in any other way to *unduly* promote the advantage of the manufacturers or dealers at the expense of the consumers, the Governor in Council may commission or empower any judge of the Supreme Court of Canada or of the Exchequer Court of Canada, or of any Superior Court in any Province of Canada, to inquire in a summary way into and report to the Governor in Council whether such trust, combination, association, or agreement exists."

* * * * *

"If the Judge reports that such trust, combina-

tion, association, or agreement exists, and if it appears to the Governor in Council that the *disadvantage to the consumers* is facilitated by the duties of customs imposed on a like article when imported, then the Governor in Council shall place the article on the free list, or so reduce the duty on it as to give to the public the benefit of reasonable competition in such articles."

(60-61 V., c. 16, s. 18. Italics ours.)

The criterion established by such wording is too plain to need comment. The sole test is whether or not the public is benefited—not whether trade as such is restrained or competition *per se* lessened.

The latest legislation in Canada is embodied in the "Combines Investigation Act" (9-10 Ed. VII, c. 9), assented to May 4, 1910. It provides somewhat elaborate machinery for investigation of *combines*, by means of boards of inquiry. These boards are to report to the Governor in council (and such reports must be published), who can place articles on the free list or revoke patents; and persons reported guilty of infringing the Act become *ipso facto* indictable and liable to penalty. We append certain extracts which indicate the purpose of the law.

"'Combine' means any contract, agreement, arrangement, or combination which has, or is designed to have, the effect of increasing or fixing the price or rental or any article of trade or commerce or the cost of the storage or transportation thereof, or of the restricting competition in or of controlling the production, manufacture, transportation, storage, sale, or supply thereof, to the detriment of consumers or producers of such articles of trade or commerce, and includes the acquisition, leasing, or otherwise taking over, or obtaining by any person to the aforesaid, of any control over or interest in the business or any portion of the business of any other person, and also includes what is known as a trust, monopoly, or merger."

"Where six or more persons, British subjects resi-

dent in Canada and of full age, are of opinion that a combine exists, and that prices have been enhanced or competition restricted by reason of such combine, *to the detriment of consumers or producers*, such persons may make an application to a judge for an order directing an investigation into such alleged combine."

* * * * *

"The application shall be accompanied by a statement setting forth:

"(a) The nature of the alleged combine and the persons believed to be concerned therein.

"(b) The manner in which the alleged combine affects prices or restricts competition, and *the extent to which the alleged combine is believed to operate to the detriment of consumers or producers.*"

* * * * *

"The application shall also be accompanied by a statutory declaration from each applicant declaring that the alleged combine operates *to the detriment of the declarant as a consumer or producer*, and that to the best of his knowledge and belief the combine alleged in the statement exists and that *such combine is injurious to trade or has operated to the detriment of consumers or producers* in the manner and to the extent described, and that *it is in the public interest that an investigation should be had into such combine.*"

* * * * *

"If upon such hearing the Judge is satisfied that there is *reasonable ground for believing* that a combine exists which is injurious to trade or which *has operated to the detriment of consumers or producers*, and that it is *in the public interest that an investigation should be held*, the Judge shall direct an investigation under the provisions of this Act."

* * * * *

"The Board shall expeditiously, fully, and carefully inquire into the matter referred to it and all matters affecting the merits thereof, including the question of *whether or not the price or rental of any article concerned has been unreasonably enhanced, or competition in the supply thereof unduly restricted, in consequence of a combine.*"

* * * * *

"Whenever, from or as a result of an investigation under the provisions of this Act, or from or as a result of a judgment of the Supreme Court or Exchequer Court of Canada or of any Superior Court, or Circuit, District, or County Court in Canada, it appears to the satisfaction of the Governor in Council that *with regard to any article there exists any combine to promote unduly the advantage of the manufacturers or dealers at the expense of the consumers*, and if it appears to the Governor in Council that such *disadvantage to the consumer* is facilitated by the duties of customs imposed on the article, or on any like article, the Governor in Council may direct either that such articles be admitted into Canada free of duty or that the duty thereon be reduced to such amount or rate as will, in the opinion of the Governor in Council, *give the public the benefit of reasonable competition.*" (Italics ours.)

* * * * *

Provisions are made for revoking patents used "so as *unduly* to limit the facilities for transporting, producing, etc.," or so as

"*unduly* to prevent, limit, or lessen the manufacture or production of any article or *unreasonably* to enhance the price thereof, or *unduly* to prevent or lessen competition in the production, manufacture, purchase."

* * * * *

Finally, it is enacted that:

"Any person reported by a Board to have been guilty of *unduly* limiting the facilities for transporting, producing, manufacturing, supplying, storing, or dealing in any article which may be a subject of trade or commerce; or of restraining or injuring trade or commerce in relation to any such article; or of *unduly* preventing, limiting, or lessening the manufacture of production of any such article; or of *unreasonably* enhancing the price thereof; or of *unduly* preventing or lessening competition in the production, manufacture, purchase, barter, sale, transportation, storage, or supply of any such article," (Italics ours.)

shall be indictable and liable as above indicated.

We have given these excerpts at some length in order that it may be very plain what is the attitude of our vigorous neighbor across the line, and in order that there may be no mistaking the nature of the competition which American business must meet from other countries.

It is worthy of note in this connection that the anti-dumping law and regulations are made a part of the customs tariff. Space forbids the extension of an abstract of the law; but it suffices to say that by means of it Canada protects her manufacturers as well as her consumers, in the colloquial phrase, "both going and coming."

(6) *Combinations by American Exporters.*

(a) *Scope of Inquiry.*

In speaking before the Third Annual Meeting of the Chamber of Commerce of the United States on February 3, 1915, President Wilson said:

"I want to know how coöperative methods can be conducted for the benefit of everybody who wants to use them, and I say frankly that if I can be shown that, I am for them. If I cannot be shown that, I am against them. I hasten to add that I hopefully expect that I can be shown that." ,

The Provision (Sec. 25) of the Federal Reserve Act that a national bank with a million dollar capital and surplus may establish "branches in foreign countries and dependencies of the United States *for the furtherance of the foreign commerce of the United States*" is not without significance in this connection.

Among those who have studied the question there is but one opinion as to the desirability of the expansion of foreign trade. The subject was discussed in the "*Revue de Deux Mondes*" for October 1, 1915, by M. Adrien Artand. While his article is more directly addressed to conditions in France, some of his statements are so apposite that we feel them to be well worth quoting. He said:

"The importance of domestic commerce depends upon our activity and the number of our population;

it is not the same with our foreign commerce, which is more or less dependent upon the facilities which we afford to trade and whose increase or decrease progresses in geometrical rather than in arithmetical ratio. *With a prosperous foreign trade, a country shares in the development of all countries and has a continually increasing merchant marine. With a decreasing foreign trade, a country little by little grows weaker, and becomes after a certain time the prey of enterprising neighbors*" (p. 590—italics ours.)

* * * * *

"We do not understand how statesmen can be indifferent to the progress or decadence of our merchant marine, and how they can desire to maintain it or to make it move ahead without assuring it cargoes by the activity of exchanges of goods with foreign countries" (p. 608).

The salient points fairly open to discussion seem to be three:

First. Are combinations between American manufacturers solely for the promotion of foreign trade legal?

Second. Are such combinations desirable or necessary in the promotion of foreign trade?

Third. Is such combination necessary for the development of the export lumber business?

(b) *The Legality of Combinations.*

Confined Solely to Export Business.

On this question, as in the case of most others where there is ample room for construction, opinion is divided, and will remain so until either the court of last resort specifically passes on it or Congress takes affirmative action. It is not our belief that such combinations are prohibited by law, nor that Congress had in mind, when the Sherman Act was passed, the protecting of trade in foreign countries. We thus state our opinion as a general proposition; but it is limited in this respect; such combinations must be confined solely to foreign business, and

must not tend to restrain, limit, monopolize, or affect domestic commerce. We have perhaps formulated our opinion in a rather dogmatic manner, but we are not alone in our view. Although the question has never been directly passed upon by the courts, many lawyers have been called upon to express opinions; and, in spite of the fact that, as a rule, any lawyer will in case of doubt protect himself and warn his client, a number of opinions have been rendered by eminent counsel to the effect that such combinations, within the limitations stated, are not illegal. It is but fair to say that probably just as many eminent lawyers have given opinions to the contrary—and such is the state of the law.

The fundamental thought underlying the Sherman Act was the protection of our citizens and their commerce against monopolies and unlawful restraints in trade. It can hardly be assumed that in legislating to this end Congress had in mind the protection of foreigners. It was known that combinations did (and do) exist in foreign countries and are, many of them, not only favored but encouraged by affirmative governmental action; and (as has been said by Mr. Hunter M. Moss) it is somewhat difficult to believe that “Congress with this situation staring it in the face deliberately enacted laws to deprive the American business man of the equal opportunities to which he is entitled in this great commercial struggle.”

Although not directly in point, the case of *American Banana Co. v. United Fruit Co.*, 213 U. S. 348, is often referred to in the discussion of this question as tending to show that the provisions of the Sherman Act do not apply to foreign commerce. The claim of the complainant was that the defendant was a combination in restraint of trade in America, and that, in order to injure the complainant's business of raising and shipping bananas into this country, it had instigated the government of Costa Rica to injure or destroy the plantation of the complainant. The Supreme Court of the United States held that the complainant could not recover on two grounds: First,

that the acts performed were beyond the jurisdiction of the United States and in a foreign country; and second, that they were performed by a foreign government.

Mr. Justice Holmes said:

"It is obvious that, however stated, the plaintiff's case depends on several rather startling propositions. In the first place the acts causing the damage were done, so far as it appears, outside the jurisdiction of the United States and within that of other states. It is surprising to hear it argued that they were governed by the Act of Congress. * * *

"The foregoing considerations would lead in case of doubt to a construction of any statute as intended to be confined in its operation and effect to the territorial limits over which the law-maker has general and legitimate power. 'All legislation is *prima facie* territorial.' Ex parte Blain, in re Lawyers, 12 Ch. Div. 522, 528; State v. Carter, 27 N. J. (3 Dutcher) 499; People v. Merrill, 2 Parker, Crim. Rep. 590, 596. Words having universal scope, such as "Every contract in restraint of trade;" "Every person who shall monopolize," etc., will be taken as a matter of course to mean only every one subject to such legislation, not all that the legislator subsequently may be able to catch. In the case of the present statute the improbability of the United States attempting to make acts done in Panama or Costa Rica criminal is obvious, yet the law begins by making criminal the acts for which it gives a right to sue. We think it entirely plain that what the defendant did in Panama or Costa Rica is not within the scope of the statute so far as the present suit is concerned. Other objections of a serious nature are urged but need not be discussed."

It was claimed, moreover, that to persuade and induce the Costa Rican government to perform these tortious acts was in violation of the rights of the complainant. The Court held to the contrary for the following reason:

"The fundamental reason is that it is a contradiction in terms to say that within its jurisdiction it is unlawful to persuade a sovereign power to bring about a result that it declares by its conduct to be

desirable and proper. It does not, and foreign courts cannot, admit that the influences were improper or the results bad. It makes the persuasion lawful by its own act."

Again the Court said:

"A conspiracy in this country to do acts in another jurisdiction does not draw to itself those acts and make them lawful, if they are permitted by the local law."

A very eminent lawyer and one specially versed on this branch of the law, Mr. Frank B. Kellogg, says:

"It is altogether too remote to say that one concern agreeing to sell goods in Germany at a certain price in any way tends to restrict competition in this country. The possibility of its affecting commerce in America is so remote as not to be a direct and substantial restraint within the meaning of the decisions. Now it can make no difference that the foreign government does not formally approve such a transaction, if it does not disapprove it and if it is valid according to the laws of that country. It certainly cannot be held in violation of the public policy of this country, for an American corporation engaged in a contest for the commerce of the world to enter into agreements which are approved by the public policy of the nations where we are competing. When we go forth to compete for the commerce of nations, we must compete under the rules, regulations and laws of those countries, as well as the customs. It might be a good thing for humanity generally to extend the principles of the Sherman Act all over the world, but they have not been extended; and are we going to hamper American corporations when engaged in foreign commerce by requiring obedience in those countries to our laws when foreign corporations are free from such restrictions? If such is to be the policy of this country, we will soon have no foreign commerce, and we cannot believe that the courts will so interpret the Sherman Act."

A very well reasoned opinion on this question by Mr. Carman F. Randolph of New York was published about two years ago. Doubtless the members of the Commis-

sion have read it. We submit the following excerpts from this opinion:

"Whatever may be advisable by way of public encouragement of export trade, and I believe there is much, it should be unthinkable that our laws are even open to the suspicion of forbidding any expedient method of promoting it.

"Yet business men entertain sufficient doubt of the validity of export associations under the Anti-trust Act to prevent the employment of this, in some cases, advantageous method of marketing commodities abroad to their own and their country's profit. This method has, for years, been a strong weapon in the hands of our rivals. It should now be recognized here because, having turned away from the policy of high protection, we must remove all barriers to our competition in the world's markets. Let the openings in the tariff wall be for exit as well as for entrance." * * *

"To the possible objection that our anti-trust policy suggests a moral duty abroad as well as at home the answer that each nation must look out for itself expresses sound law and no cynical indifference. Economics are not dissociated from morals, but the relation of economic morality to monopoly, competition, free trade, protection, export bounties, ship subsidies, etc., is for each nation to determine and the collective determination disclose sharp contrasts.

"I have put the international question simply to dispose of it. Had all reference to foreign commerce been omitted from the Anti-trust Act or had contracts or combinations in restraint of import trade been singled out there would have been no breach of duty toward other nations. So there will be none if, now, we recognize export combinations.

"In fine our legal problems extend no further than the jurisdiction of the Anti-trust Act—the territory of the United States." * * *

"The sole purpose of an export association is to sell, mediately or immediately, domestic commodities in foreign markets. The main purpose of the Anti-trust Act is to protect consumers from monopoly prices. What consumers? Do these include persons in foreign countries? * * *

"But the prohibitions of the Act cannot reach out to the production, assembling and transportation in foreign territory of articles sent hither, though these processes be monopolistic. For it is the universal, the self-evident rule that the laws of one nation cannot regulate the policy of another.

"In the matter of our exports this rule naturally works in reverse order—the prohibitions of the Act do not affect the handling of our commodities in the foreign market.

"Since the consummation of an export association's purpose—sale in a foreign market—is beyond the reach of our statute, it would be absurd to argue that the mere inception of the purpose in this country initiates a conspiracy in restraint of trade.

"I conclude that the purpose of an export association is from beginning to end beyond the purview of the Act." * * *

"Export associations may, in my opinion, be arranged and operated so as to withstand attack in the courts. It remains to be seen whether business men will be inclined to take even the chance of attack. If not, Congress should remove the shadow of doubt by permissive legislation. Either a proviso to the Anti-trust Act or a clause in a general 'Act to promote export trade,' comprising whatever provisions the Government and men of affairs may deem useful and expedient."

There are some significant statements in the opinion of the Court in the case of *United States v. United States Steel Corporation et al.*, 223 Fed. Rep. 55. We quote from page 103:

"It will be observed that in thus reducing the price of basic steel materials to enable manufacturers to enter the foreign markets, the Steel Corporation has pursued the same helpful course of lower freights for exports which the Interstate Commerce Commission has, since 1903, approved of the railroads doing. In that regard the proofs show (Vol. II, pp. 4474-4475):

"If a shipment is made from Pittsburgh to New York under a bill of lading beginning and ending with Pittsburgh and New York, that where it is

known that it is going to be exported the rate is less than when it is known it is going to stop in New York; the tariffs are published.' * * * 'There is an export rate and a domestic rate, and the Government has encouraged the export business to the extent of permitting the Interstate Commerce Commission to make export rates. The export rates have been in effect since 1903.'

"And we may add the proofs (Vol. 10, p. 3933) show that the Interstate Commerce Commission has gone to the extent of differentiating among different articles for export, making freights on export rails lower than on other export articles. We may here say that the Interstate Commerce Commission and the railroads in thus coöperating with the Steel Corporation, and these other manufacturers in allowing lower freights from interior points to the seaboard on goods intended for export, has followed the policy adopted in European countries. In that regard the proofs (Vol. 28, p. 12037) show:

" 'The German Government and the German railroads help for the export of finished products, but they charge the full domestic rate for any finished product that is imported.'

"Passing on, then, from this \$30,000,000 of the foreign trade which the Steel Company has created for itself by inducing domestic consumers of its basic products to jointly enter into a foreign trade, and considering the other foreign trade, \$60,000,000, which is its own, we examine the evidence as to whether the creation and building up of this, its own foreign trade, involves monopoly or restraint of trade. This becomes all-important, because the Steel Corporation contends that the creation and building up of a foreign steel and iron trade was one of the controlling reasons that led to its formation, and not a purpose to restrain or monopolize interstate home trade. In that regard the contention of the Steel Corporation is that no such foreign steel and iron trade could be built up without the large resources of the Steel Company (Vol. 10, pp. 3790, 3791), and the varied products which the integration and combination of its units alone made possible. The mere statement of this contention shows its importance, for if the twofold purpose of this

statute is to foster and protect trade, both foreign and interstate, and if foreign trade cannot be increased without some such mechanically varied and financially strong agency as this Steel Corporation, then manifestly such agency is not a violation of a statute whose purpose was to permit—not to prevent—the normal, natural and to be desired development of unrestrained, unmonopolized trade, both foreign and domestic.”

And again, page 114:

“With these facts, figures, and results proved in this record, we are warranted in holding that the foreign trade of the Steel Corporation, its mode of building it up, and its retention when built up are not contrary to the Sherman Law. *To hold otherwise would be, practically and commercially, to enjoin the steel trade of the United States from using the business methods which are necessary in order to build up and maintain a dependable business abroad, and if the Sherman Law were so construed, it would itself be a restraint of trade and unduly prejudice the public by restraining foreign trade.*” Happily, it is open to no such charge, for, as the Supreme Court in the Standard Oil Case said:

“‘One of the fundamental purposes of the statute is to protect, not to destroy, rights of property.’” (Italics ours.)

We are not prepared to say that the question is settled, but it does seem that, although the Commission is not a court, it has the opportunity in this instance to aid and encourage export trade by indicating, *first*, whether in its judgment coöperation and combination is either desirable or necessary in the export trade, and, *second*, the extent to which such coöperation may be safely carried. It would seem that this is a case where the words of the President, in his message of January 20, 1914, might well be applied. They are as follows:

“And the business men of the country desire something more than that the menace of legal process in these matters be made explicit and intelligible. They

desire the advice, the definite guidance and information which can be supplied by an administrative body, as Interstate Trade Commission."

(c) Are Such Combinations Desirable or Necessary in the Promotion of Foreign Trade?

In the study of an economic question the seeker after truth will when possible test a theory in the light of experience. He will ascertain the facts, will examine with care the opinions of experts, both students and men of experience, and will above all look to results where any particular practice has been carried on. Unless both theory and experience are to be rejected, the application of any test to the question here submitted shows that combinations are not only desirable but necessary if American producers are to compete in foreign markets; otherwise, the export trade will be confined substantially to raw material or to the products of concerns which are of sufficient magnitude as to have within themselves the capital as well as the variety of products necessary to enable them to compete in the world's market.

Foreign trade has ever been the recipient of careful solicitation and care at the hands of enlightened governments, and many of the great nations of the world are active in every conceivable way in promoting this trade. This is not to say that the American manufacturer is justified in "lying to" and casting the entire burden upon his government; but when he attempts to enter a foreign market he finds himself confronted with a character of competition which is impossible for him to overcome, as it is more often than not backed up by some governmental agency. Turning as one naturally would to see what might be done through coöperative effort, he again finds himself confronted by laws which, if not intended to prevent and handicap foreign trade, certainly have that effect as far as he is concerned, unless he is willing to take chances such as few business men care to. The individual manufacturer, met at every turn by such condi-

tions, throws up his hands in despair; and thus the very purpose of these laws, which were to protect him against unfair competition or competition of a character he cannot overcome unaided, is defeated, and the result is exactly the opposite of what was intended.

The consequence is that, while our foreign trade runs into high figures, the larger part of it consists of what might be termed raw materials. This is not to say that our progressive merchants and manufacturers are not making headway even in the face of serious obstacles, for they are. That our foreign trade is not what it should be is shown most conclusively by the intelligent and consistent efforts the Department of Commerce is making to encourage and expand it. The individual concerns, however, which have made real progress in seeking and holding trade are those which have within themselves the capacity from every standpoint, financial and otherwise, of meeting the competition they find. We refer to such organizations as the United States Steel Corporation, the International Harvester Company, the Standard Oil Company, and those representing the copper interests, or to companies or individuals owning patented articles in demand or producing extensive lines of certain goods or something not generally found elsewhere.

Turning to the expressions of opinion from both students and men of experience, we quote some excerpts from a paper entitled "Coöperation in Export Trade," written by William S. Kies, of the National City Bank of New York, and published in "The Annals of the American Academy," as follows:

"The best example of national achievement resulting from intelligent coördination of efforts is that of Germany. Twenty-five years ago Germany set for herself the task of building up her foreign trade. Her economists saw clearly that national wealth and prosperity were the sure rewards of a successful foreign commerce; that selling to other nations, in return for their raw materials, the products of factory and workshop, meant a permanent in-

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which is necessary to the accomplishment of permanent results. This, to a large degree, no doubt, is due to the feeling of uncertainty existing in the minds of manufacturers as to the extent of the application of the Sherman Act to combinations engaged in foreign commerce. Some lawyers have held that the Sherman Act does not apply in foreign commerce; others have held that it does. While the process of unscrambling combinations is still going on, and so long as there is any doubt about their validity, there will be hesitancy about forming new combinations irrespective of their economic value.

"A great deal has been said recently about the necessity of organizing combinations among industries interested in foreign trade if new foreign markets are to be successfully developed. There seems to be quite a general agreement that the Sherman Act should not apply to combinations organized for export trade. That the Administration itself recognizes the necessity for coöperative effort in opening new markets is indicated by the speech of the President of the United States before the Third Annual meeting of the Chamber of Commerce of the United States, on February 3, 1915, when he said:

"I want to know how coöperative methods can be conducted for the benefit of everybody who wants to use them, and I say frankly that if I can be shown that, I am for them. If I cannot be shown that, I am against them. I hasten to add that I hopefully expect that I can be shown that.'" * * *

"Opening new markets abroad costs money. Wasteful competition in such markets injures the American manufacturer, serves to discourage effort, and benefits only the foreign consumer and the foreign competitor. In its last analysis, unprofitable foreign trade is a burden upon the industry at home, whereas profitable export business results in a prosperity for the particular industry, in which capital and labor share, and which ultimately benefits the domestic consumer." * * *

"Combinations for the doing of export business, which would result in the shutting out of other concerns from the foreign field as the result of a monopolistic scheme of organization, would probably be illegal under the Sherman Act as at present construed.

And yet export trade, with its many difficulties and problems, requires such a concentration of resources and effort that the great benefits to be derived by the whole country from a large foreign commerce argue powerfully for the removal of all restrictions upon combinations in export trade."

Mr. John D. Ryan, President of the Amalgamated Copper Company, in an address before the National Foreign Trade Convention at Washington, D. C., on May 27 and 28, 1914, in speaking of this particular question, said:

"The United States is a country of great natural resources; its farms are producing every year cotton, wheat, corn and foodstuffs in enormous quantities to clothe and feed the people of many nations besides our own; its mines are the richest and most productive of the world, and supply raw materials to every important manufacturing nation of the world; its forests furnish every continent of the earth with building materials. Are these products of the soil and of the mines and forests always to be sold abroad in enforced competition? Is every producer of this country to be compelled by our Government to under-sell his neighbor in order to market his product in foreign countries? It seems absurd—it is more so than it seems—and yet there is more to be considered than the competition of our own producers when we are striving for foreign markets. We have to meet not only the enforced competition of our own people, but also the combined buyers of other countries, where combinations are legal. England permits combinations which our Sherman Law prohibits, France encourages them, and Germany not only encourages but, at times, compels its citizens to enter into them. You have read, doubtless, all of you, within a month, of the great rejoicing in Germany because, through the efforts of the Emperor, the great German shipping companies were brought together after a break of a few months, into an agreement to fix and maintain the rates on freight and passenger traffic, to the profit of Germany—and the United States of America will foot the bills. We furnish the tonnage and the travel, so why should

Germans compete for our money when they can so much better take "all the traffic will bear" and divide it in proportion between themselves?

"We meet the combined buyers of Europe in selling our great treasures of the soil, the mines and the forests, and we meet them each of us fighting not only for himself but against his own countrymen, and the combined buying strength makes its terms against the divided sellers' necessity. When we load our products on the pier for export we meet the shipping combine — German-English-French. We pay the rates they fix in their pools and combinations. We sell our products to the combined buyers of foreign nations and they fix the price at which they will trade. If our producers must sell, they will take the price offered by the foreign combination, or, by waiting until one of them is forced by necessity to sell at a sacrifice, the price for all is reduced.

"In ten years ending 1913, a number of large copper-producing companies of the United States sold through their several selling agents:

"5,560,000,000 pounds of copper, of which 2,580,000,000 pounds was sold to domestic consumers, and 2,980,000,000 pounds to foreign consumers, bringing a total of \$821,000,000 in money. The foreign buyers paid an average price of 14 38/100c. per pound delivered at foreign ports; the domestic buyers paid an average price of 15 21/100c. per pound delivered at home, or 83/100 of a cent per pound more than the foreigners paid. This represented about one-half of the copper produced in this country, and was consumed almost one-half at home and one-half abroad. If we take it for granted that other producers sold at about the same average price, the foreign manufacturers who put labor and profit into our copper for the markets they were supplying had a handicap of fifty million dollars in that period as against the American manufacturers, in spite of the fact that producers of raw copper have had no tariff protection or any Governmental help to keep domestic prices higher. The handicap is simply the result of the advantage combined foreign buying has had as against competitive selling, and the domestic manufacturer could not take the same advantage because the law of his coun-

try was holding him and the foreigner's law was pushing him.

"Much has been said in recent years about the conservation of our natural resources, but how can this beneficent policy be more ruthlessly defeated than by the sale of our mineral and forest products to foreign consumers at prices which are less than those which might and should prevail if American producers could with respect to such foreign markets have the same privilege of protecting prices as the citizens of other countries?" * * *

"The only argument I have ever heard advanced against permitting agreements or understandings relating solely to export trade, is that they might result in advancing the cost to domestic consumers of articles covered by the agreements. I say that that would not at all be the effect, for if no agreement restricting production is permitted—and none of us advocate that it shall be—and if the agreements as to foreign markets result in advancing prices there, and as a result of advanced prices consumption abroad fell off, the excess production would have to be marketed at home for what it would bring, and the benefit of price reduction would be gained by our own people.

"It has been said, too, that producers and manufacturers having agreements as to foreign markets would be brought into such close relations one with another through those agreements, that *sub rosa* they would agree to domestic trade. That is a repetition of the charge that our business men are dishonest. Most of them are not, and the dishonest ones will need nothing to bring them together to evade the laws, for they will do it whenever they see a chance. The men and the corporations who will always observe the law of the land are entitled to be given the liberty of action in their business which the best interests of the country and its citizens demand, and laws must not be enacted, or left upon the statute books if already there, that hold and hamper the honest man only to give advantage to one who will evade them secretly.

"To compel competition one with another by Americans engaged in trading in foreign markets to sell our products to the combined buyers of other

countries can be compared fairly with the sending of an army equipped with bows and arrows to fight the armies of the world, carrying modern guns and using modern ammunition. The result is just as certain, and so far as manufacturers are concerned, I will attempt to show how utterly we have failed in winning our place in the world's markets.

"We exported in the year 1913, \$2,448,000,000 worth of raw products and manufactures. The Department of Commerce in its statistics reports many articles as "manufactures" that are really only "fit for manufacture"; for instance, copper in plates, bars and ingots is listed as "manufactured," when it really is only "fit for manufacture," and, in the terms of the trade, is "raw copper." Many other instances of like classification occur. I have taken the 1913 statistics, and as nearly as can be determined by conferring with exporters in various lines, and by classing all food products as raw, I make the figures for the year 1913:

| | |
|--------------------------------------|-----------------|
| Raw and partly manufactured products | |
| exported | \$1,676,000,000 |
| Manufactured products exported or | |
| about 68% raw and 32% manufac- | |
| tured | 772,000,000 |

"Of the manufactured products, \$430,000,000 or nearly 60%, are included in the three classifications: 'Agricultural Implements,' 'Mineral Oil' and 'Iron and Steel'—the three lines of export trade which have been built up largely by the so-called 'trusts.' The export business of these large concerns has been won by a fight in the foreign markets, backed by capital sufficient to get our share of the world's business in these particular lines, in campaigns lasting over a long period of years and entailing enormous expenditures to get a footing. Other manufacturers in the same lines will all testify that the trusts have done pioneer work in creating markets that have helped their smaller competitors sell their goods."

* * * * *

"No small manufacturer can develop a market abroad for any product he makes, unless it is a patented article on which foreigners cannot compete, for he has not the capital or the organization to seek the markets and fight for them single-handed."

We have quoted at length from Mr. Ryan because he is recognized throughout the country as a man thoroughly versed in the foreign trade.

This Commission conducted hearings throughout the country on the question of the advisability of permitting combinations among American exporters for the extension of foreign trade. While we have not had access to the records of their hearings, according to the reports in the press there was substantial unanimity as to the desirability of, as well as to the necessity for, such combinations if our foreign trade is to be extended as it should be. Mr. Henry P. Davison of J. P. Morgan & Co. is reported to have said:

“Joint selling agencies are another essential if we are going to compete successfully with older foreign countries. We must have some form of association. The average manufacturer and producer and certain corporations might combine in carrying overhead charges, and in this way economize expenses. Without some such combination we cannot get into the foreign field successfully.” * * *
 “Were coöperation permissible, independent manufacturers would be greatly benefited by combining in joint selling agencies in foreign business. Some such export selling organization is necessary.”

We have quoted from but a few of the many experts and students who have expressed themselves on this subject.

Every one familiar with the history leading up to the enactment of the law creating this Commission is aware of the insistent demand for some form of legislation which should free foreign trade from the uncertainty of the application of the Sherman Act thereto. The necessity for this was keenly felt by those familiar with the situation; and the desire for such legislation was not confined solely to those who wished to engage in foreign trade and who felt they were unduly restricted, but was shared by officers of the government as well. This general demand was recognized in the law through the enact-

ment of paragraph "h" of Section 6, which empowers the Commission to investigate trade conditions in and with foreign countries, etc., "and to report to Congress thereon, with such recommendations as it deems advisable." The discussion of the development of the foreign trade by the Court in *United States v. United States Steel Corporation*, 223 Fed. Rep. 55, is both illuminating and instructive, as it is the judicial finding to date on the character of competition met with in foreign markets, and on the obstacles which an American manufacturer has to overcome in order to maintain himself in these markets. We cite the appropriate page for each extract from the opinion:

At page 98:

"Now foreign trade is not a mere general, theoretical abstraction of selling abroad, but is a concrete, definite, commercial business proposition in iron and steel." * * * "Moreover, in considering the possible range of foreign iron and steel markets for American iron and steel, there must first be excluded from that market, Germany, France, Austria, Italy, and Russia. The proof is (volume 10, pp. 3846, 3847) that the tariffs of each of those countries prevent the sale there of American iron and steel. The proofs also show (volume 10, pp. 3827-3849) that the attitude of the English public and the hostility of English labor organizations toward American iron and steel likewise prevent American iron and steel products entering England, save wire fences, the manufacture of which is only now being taken up there. It follows, therefore, that the iron and steel trade of the United States with foreign nations must be largely built up in other parts of the world, and such has been the outcome of the efforts of this company as shown by the proofs. Referring to trade in such nations as are not closed to the iron and steel business by their tariffs, these in a general way are the steel markets of Asia, Africa, the British Colonies, all South America, Cuba, and Mexico. But while these markets are open, they were, when the Steel Corporation was formed (Vol. 10, p. 4125), practically preëmpted by

foreign manufacturers and foreign merchants; that is, principally continental concerns, English concerns, as well as having branch offices and warehouses in all of the consuming markets of the world. It was a very difficult thing to enter those markets. The European manufacturers had been established in the markets of South America, Asia, Africa, and the Orient, some of them over 50 years. There was not only a prejudice, but a hostility, in most cases, against newcomers in the trade.' * * *

"Moreover, the proofs (Vol. 10, p. 3842) show, and such would seem to be the manifest commercial fact, that:

"It is impossible to develop a foreign business unless it is done continuously. Buyers will not patronize people who are not in a position to give them a continuous source of supply."

"Without entering upon a discussion of other matters, it suffices to say that, not only were these foreign markets preëmpted and tenaciously held by foreign manufacturers, foreign merchants, and foreign bankers who refused to finance importing enterprises there unless there was (Vol. 10, p. 3833) a stipulation that all materials should be brought in such bank's own country, but the markets required the maintenance of varied lines of products, the only way to supply such varied lines was by maintaining varied lines of finishing mills at home and the maintenance of large warehouses (Vol. 13, p. 4974; Vol. 11, p. 4139) abroad." * * * Pp. 98-99.

"From the proofs in the case three things seem settled, namely: That when the Steel Corporation was formed American steel manufacturers had no real dependable export trade abroad; that such sales as they made were spasmodic, made with a view to dumping surplus product; and such sales were secured by underselling the European market when they had no home market. It will also appear that being excluded by the steel tariffs of Germany, France, Russia, Austria, and Italy, and by other causes from England, such dependable foreign markets as were open for them to build up, as will be seen later, had to be found in other parts of the world." Pp. 100-101.

* * * "It will be observed that in thus reduc-

ing the price of basic steel materials to enable manufacturers to enter the foreign markets, the Steel Corporation has pursued the same helpful course of lower freights for exports which the Interstate Commerce Commission has, since 1903, approved of the railroads doing. In that regard the proofs show (Vol. 11, pp. 4474, 4475):

“If a shipment is made from Pittsburgh to New York under a bill of lading beginning and ending with Pittsburgh and New York, that where it is known that it is going to be exported the rate is less than when it is known it is going to stop in New York; the tariffs are published. * * * There is an export rate and a domestic rate, and the government has encouraged the export business to the extent of permitting the Interstate Commerce Commission to make export rates. The export rates have been in effect since 1903.’

“And we may add the proofs (Vol. 10, p. 3933) show that the Interstate Commerce Commission has gone to the extent of differentiating among different articles for export, making freights on export rails lower than on other export articles. We may here say that the Interstate Commerce Commission and the railroads in thus coöperating with the Steel Corporation, and these other manufacturers in allowing lower freights from interior points to the seaboard on goods intended for export, has followed the policy adopted in European countries. In that regard the proofs (Vol. 28, p. 12037) show:

“The German government and the German railroads help for the export of finished products, but they charge the full domestic rate for any finished product that is imported.’” * * * P. 103.

“The fact that the development of the foreign trade necessitated a wide diversity of products, that this product diversity was to be obtained by the Federal Steel Company acquiring a number of mills making such diversity of products and completely integrating itself is shown by the proofs.” * * *

“And that such foreign trade demanded such wide diversity of product as could only be supplied by a company which was broadly integrated to manufacture such diversified supplies is shown by the proofs.” * * * P. 105.

"That this is a correct business estimate of the demands of the foreign market is corroborated by the testimony of the president of probably the most widely diversified range of finished steel products company in this country, who (Simmons, Vol. 23, p 9403) says:

"Q. In what way has your ability to carry on a foreign business been affected by the fact that you have a full line consisting of many kinds of edge tools and cutlery?

"A. Without that, we would have practically no business abroad.

"Q. Why is that?

"A. Because no one line or one item in the line would be sufficient to interest the foreign buyers. It is the completeness of the line under one brand and one uniform quality that they seem to take an interest in.

"Q. That is, they buy full lines of you, do they?

"A. Yes, sir.

"Of the fact that this policy of foreign trade expansion was as such entered into by the company and has since been pursued, the proofs are full. (Roberts, Vol. 13, p. 4969; Vol. 11, pp. 4147, 4148.) A most experienced man of one of its constituent companies, the American Steel & Wire Company, and who had developed its foreign wire business, was given absolute charge of the development, along the lines previously advocated (Schwab, Vol. 11, p. 4147; Farrell, Vol. 10, pp. 3774, 3775), of all the export business. In 1903, the Products Company, a subsidiary of the Federal Steel Company, was created for that express purpose. A systematic plan was pursued of establishing foreign distributing warehouses and of building up new freight lines and shipping facilities." P. 106.

Indeed, no clearer or more direct statement of what an American manufacturer must do in order to establish and maintain himself in foreign trade will be found than that presented in the opinion in this case.

In a recent address before the Banker's Association at Indianapolis Mr. George W. Perkins, among other things, said:

"We may not have to face a war at arms with foreign nations, but we are certain to face *war in industry* with foreign nations. War may not come, but peace will surely come, and, after peace, industrial conflict." * * * "It is a great mistake to expect Europe to be hopelessly crippled, industrially speaking, when this war is over." * * * "No civilized people ever had such golden opportunities within their reach, and yet no unpreparedness to take advantage of them is so great that they are slipping away from us, and, as matters stand today, when peace comes we shall find ourselves worse off in the matter of our foreign trade relations than we were when the war began."

These statements are mere truisms known and understood by all. Yet it seems at times as if it were as difficult to secure action where both cause and effect are known as it is where the question is still open to debate. Modern inventions, from a commercial standpoint, have made the nations of the world competitors in the world's markets. In some respects both time and distance have been annihilated, and it will not be long before the merchant in New York can talk directly to a customer in any part of the globe. If we are to participate in the world's commerce we must arm ourselves with every weapon which will help us to enter the conflict on even terms. That we cannot isolate ourselves is certain. That we would not if we could is equally certain. It therefore behooves us to prepare ourselves for the inevitable struggle for commercial supremacy. Such preparation can come only through our doing all that intelligent study shows to be necessary to enable us to hold our own in every part of the world.

The same thought is expressed in a recent address delivered by Mr. Edward N. Hurley, Vice Chairman of this Commission, in New York City, December 12, 1915, from which we take the following excerpts:

Heretofore the American business man, whether manufacturer or otherwise, has been prone to show an interest in foreign trade only during dull periods.

Now that business has improved and factories are running full time in this country, I am afraid there is a growing feeling of indifference toward opportunities ahead. The theory has been advanced that it will require years for the countries now at war to resume their normal rate of production, and that the business is bound to come to us anyhow. This is a serious mistake. It was only a few months after the Franco-Prussian war when France was producing almost as much as before. She did not recover her normal purchasing power for twelve years, but this was due to the heavy indemnity Germany laid upon her.

The American manufacturer should realize that not a smokestack has been destroyed during this war in England, Germany, or Italy, and only a few in a small part of France.

Unless we take advantage of the great opportunity we now have we will find that ninety days after the war is over Germany; France and England, and other European nations, will be on their way to a position in the markets of the world even stronger than they occupied before.

True business preparedness demands that every American manufacturer who makes a product that can be sold abroad should aim to sell from 10% to 20% of his output to foreign consumers. *A market which includes both foreign and domestic business stabilizes industry and insures the manufacturer, his employees, and the country against the worst effects of financial and commercial depressions.* * * *

And I might mention, by the way, that such commerce can now be more easily developed, since, for the first time in our history, we have begun to establish our own banks abroad, thus removing many of the difficulties surrounding foreign exchange and credit information. With American branch banks established in South America and projected in the Far East, there is no reason why our business expansion should halt.

Coöperation the Only Safeguard.

Perhaps you may think that I am over-earnest in this advocacy of organization, higher efficiency in

business methods and modern practices, the adoption of European ideals of thoroughness, the standardizing of accounting, but my earnestness proceeds from an understanding of the critical condition which confronts American business. The great war has brought to us great opportunities, and equally great dangers. The thought that we must keep in mind is, "After the war, what?" Shall we grow and expand while the growing is good, or calmly wait the time when peace in Europe will be followed immediately by fierce competition not only in foreign markets but in our domestic market as well? * * *

Industrial preparedness must be the watchword. Let us have better organizations and greater efficiency at home; let us push our trade abroad; let us develop our industry so strongly that no foreign competition can dislodge it. (*Italics ours.*)

All students of the question have arrived at the same conclusion, and when this conclusion is tested by experience it is proved to be sound. The development of the foreign trade of Germany of late years has been marvelous, and this trade does not consist of raw material. It is largely composed of fully manufactured products, many of them carried to the last degree of refinement. A study of German laws and administrative action reveals the facts that in every particular and by every reasonable method that country encourages its home manufacturer and helps him to get his goods into the markets of the world. A great merchant marine was built up; railroad rates were framed to aid the manufacturer; branch banks were established in foreign countries and were active agencies for promoting trade there; coöperation and combination were not only permitted but were expressly made lawful and at times compelled. Price agreements were recognized as necessary and were legalized. Representatives of the foreign department, no matter how high in the diplomatic world, were always at the back of the German merchant, and sometimes ahead of him. In other words, Germany realized that only through coöperative, intelligent effort and efficient organization

based on sound economic principles could she hope to make headway in the world's commerce. Recognizing this, she put into effect every possible agency, and in a very short time, comparatively speaking, secured results that astonished the world. It has been said by Commissioner Hurley:

"In European countries, manufacturers and merchants aided by their governments have developed a high state of efficiency, which enables them to sell their goods in the markets of the world. The Federal Trade Commission desires to do what it can to help bring the American manufacturers and merchants on equal terms with these foreign competitors in order that they may be able to get and hold our share of foreign trade."

Thus we see that, whether judged by experience or based on the advice of experts or the opinions of students, there is but one answer,—one conclusion. If this country is to compete in the markets of the world the same intelligent and sustained effort will have to be made as has been shown by our competitors. The opportunity is here. The question is, will we take advantage of it?

The possibilities appeal to all alike. A fair share of the world's trade is a prize well worth a nation's ambition. It is the fruits of peace we seek, not the prizes of war. If the merchants of America are given the opportunity to meet their competitors in foreign fields on equal terms and the chance to show the spirit of progress that inspires them, the ambition that stirs them, then they, like the merchants of all times and in all places, will be the forerunners of civilization, the builders of empires based, not on might, but on the forces that lead to peace and prosperity.

And why should not the American merchant have this opportunity? What rule of reason, practice, economics, or morals would be violated if he should be placed in a position where on terms of equality he can distribute the

work of the American mechanic throughout the world? It seems to us that no question is more worthy of the consideration of our statesmen; nor in any field is the opportunity for success based on merit so great. We simply have to face these problems as they are. We must recognize the facts as they exist, and the subject will need to be dealt with broadly, constructively, and patriotically. If it be considered in such a spirit it is not difficult to foresee the magnificent future that lies before this country in the foreign field.

(d) Is Such Combination Necessary for the Development of the Export Lumber Business?

As heretofore stated, the lumber industry in the Northwest in its inception and for many years thereafter was confined to local and cargo business, both domestic and foreign. When the industry started and for some time afterwards much the larger portion of British Columbia was a wilderness, and its manufacture of lumber was nominal. The rapid growth of the Prairie Provinces created a large demand, and at prices more profitable than the cargo business afforded. In consequence, the efforts of the manufacturers were directed toward supplying this demand rather than toward developing the export trade. Of late, however, the keenest interest is being displayed both by the manufacturer and by the British Columbia government in the export business, and it would be a serious mistake to assume that British Columbia will not become an increasingly potent competitor with the manufacturers of the United States in the markets of the world. The section of this brief dealing with the policy of British Columbia toward its forests and lumber industry, together with what will be said under this heading, will, it is hoped, aid the Commission in forming a fair conclusion as to the competition which the American manufacturer will have to meet from this quarter in the immediate future.

(7). *Estimated Effect on Domestic Situation of Increased Export Trade.*

We will now consider more concretely the probable effect on our domestic trade of an increase in the export lumber trade. From information gathered from a number of reliable sources it may safely be said that an increase in export trade will prove of benefit to the domestic trade. An idea seems to prevail that only high grades of lumber are exported, and that if this trade be increased the result will be either an accumulation of low grade common lumber to be dumped on the domestic market or a great waste of raw material in the woods. We shall later set out the grades of lumber now exported and let the facts speak for themselves. This, however, is but part of the story. We have heretofore tried to make clear that as the market is now handled the ultimate buyer and seller do not come together, that there is no serious attempt to merchandise lumber (and under present methods there cannot be), and that in consequence higher grades are often used where lower would do as well, to the detriment of both the user and the producer. Unquestionably a better understanding as to needs and requirements on the one hand and as to the value of the wood on the other would lead to better results for all concerned. It is not at all impossible, as has been suggested by some leading manufacturers, that buying on a mill run basis may ultimately be as common in this section as it is in others. One of the chief ends sought through coöperation in the export trade is the bringing about of better merchandising conditions, wider distribution, and a proper understanding of the real value of our woods. Many of our export mills are also what are termed rail mills, selling their products in the markets according to their respective demands. The operators of these mills on anything like a fair market handle their product so that no "dumping" results. On the other hand, if they cannot find an export market, their output must be taken

care of at home or they must cease to operate. The marketing of common lumber is a problem, but, according to manufacturers with large experience, the export business aids in its solution rather than making it more difficult. One manufacturer writes:

"Instead of the export business forcing a large quantity of low grade material on the market it provides a means of removing from our domestic market a very large quantity of common lumber, which would otherwise be forced upon our own markets, with a lowering of prices possibly, as may be very well exemplified by our present off-shore situation.

"Owing to the extreme scarcity of tonnage that has prevailed during the past year, mills that were formerly doing a considerable portion of export business have been forced into the domestic field and they are marketing their output at home, except where they have closed their mill down entirely. The result has been, considering cost of production, that we have probably had the lowest prices any time in the history of the fir business. While we cannot attribute the prevailing low prices entirely to the lack of export business it has, however, been a decided factor in aggravating the situation."

(1)

What grades of lumber will be exported chiefly?

All grades as low as No. 2 common are exported. The bulk of the lumber exported is described as merchantable as provided in export G list. For China the specifications generally call for 50% merchantable and 50% No. 2 merchantable or common. The specifications take almost the entire product of the log with the exception of the clears and No. 3 common, sometimes termed "culls." The requirements of Australia are such that only the highest class of merchantable lumber is shipped. Practically no clear lumber is shipped to Australia as clear, for flooring and stock of that character come from the Baltic. It has heretofore been explained that owing to the tariff large sizes are generally sent from this country to Australia.

It has also been shown that unnecessarily high grades are shipped to this territory, a condition which a better acquaintance with the trade, as well as with the product, would obviate. To the Port Pirie market in southern Australia mining timbers of low grade, but suitable for the purpose, are taken.

In Central America and Mexican ports the grade is usually common, with occasional selected common for a special purpose, which will grade about equal to merchantable of the export list. There is also a small demand for other grades of stock, No. 2 clear and better.

In the Philippines the requirements are usually for common and better.

On the West Coast of South America the grades required are merchantable, but are not graded as high as shipments for the Australian market. Many mills figure there is at least 50 cents per thousand difference in grade between Australian merchantable and West Coast merchantable. Considerable 1x6 clear and select is shipped to the West Coast and some T&G flooring. In South Africa they take about the same grades as the West Coast of South America.

In Great Britain and the Continent they take high grade merchantable lumber, although the specifications for merchantable ordinarily call for timbers and plank.

Japan takes large size squares running from 16x16 to 30x30, which enables the mill to get rid of the entire product of the log with the exception of the clear trimmed off in squaring up the log.

This covers in detail the markets taking by far the larger part of the export lumber. The manufacturers state that there is no limit to the amount of trade that could be worked up on the product of the log excepting the competition from other woods that can reach the territory to better advantage than ours. Ordinary common and better grades have always found their way into the export trade. It is stated that the exports of Douglas fir have not run over 10% clear.

(2)

How will the disposal of the remainder affect the home market?

Most of the manufacturers state that better prices for export and the proper exploitation of foreign markets will reflect a better condition in the domestic market. As to the low grades, the manufacturer usually tries to find a local market where there is but little expense in the way of freight to add to the cost. We are advised that the experience of the past does not bear out the assumption that because a high price is secured for a certain grade of lumber the remainder will be dumped. It is also suggested that the domestic stocks will in reality be improved in quality by reason of the export markets demanding a continually increased percentage of lower grades and decreased percentage of select grades of common. It is also felt that this situation would be more rapidly brought about through contact of representatives of mills in foreign countries with buyers and users, as there seems to be no question that the trade could and would use lower common grades for many purposes if the buyers were better educated as to the value of the material.

(3)

Will a surplus of low grades accumulate, making the low grade problem more serious and close utilization of timber more difficult?

The answers to that may be thus epitomized. The general response is in the negative, that the real value of the product will be determined from time to time; that less waste will accumulate; and that no manufacturer will permit a surplus of low grades beyond the normal accumulation of stock.

(4)

Will the "dumping" of surplus material, unsalable abroad, upon the markets of the United States demoralize the domestic trade?

Again the general consensus of opinion is that it will not; that more intelligence in operation will be developed;

that mills will not be constructed or operated to take advantage of the dumping of the surplus in the domestic trade; and that in the natural course of the development of the business such matters as these will be taken care of.

(5)

Will this result in benefit to the domestic consumers, or will any such benefit be merely temporary and the ultimate result a serious loss to all interests dependent on the thrifty use and permanence of the national timber supply?

This question is of course predicated upon the theory that there will be a dumping of surplus material and a resultant low price to domestic business. It is the belief of the manufacturers that this export business will develop the industry through the extension of business abroad; that direct and better merchandising will increase utilization through the further and more refined manufacture which will be called for; that the interests of the forests will be thereby conserved; and that the conditions implied in the question will not result.

(6)

Are high, relatively low, or average profits anticipated in the export business? That is, will the principal advantage of the extension of foreign trade be to extend the more profitable trade, putting the exporter in a position to undersell on the home market? Will the foreign market serve mainly to take surplus stocks at little or no profit? Or will the export trade stand on its own footing without affecting the domestic market one way or the other?

Average profits will be anticipated in the export business, although market conditions will determine just how high or how low they will be. It takes trade demands in various territories for different kinds of lumber, with the necessary variations in price, to produce an average price. The manufacturers on this coast feel that, wher-

ever possible, they should extend the market for all grades of lumber which can be furnished. What the manufacturer is trying to do, is to get his product into the best sizes and grades possible and dispose of them at the very best possible prices. The American manufacturers compete with others besides themselves, and do not and cannot control the export markets.

Freights have much to do with the selling prices, but a stable price on the product would result in popularizing it abroad and relieving it from the exceptional losses due to wide fluctuations. The export trade will not affect the home market detrimentally. The relief, by disposing of all grades that can be sold, will benefit it.

Where mills are located so that they can take advantage of rail on both domestic and export shipments there is a general interchange of business, depending upon the desirability of the market, and one affects the other. The better operators take percentages in each district, rather than cut entirely for one market or the other. Domestic business stands largely on its own bottom and does not always follow the fluctuations of the off shore market, although a dearth of export orders almost always affects the rail business seriously, as is the case today and has been for some time past.

The foreign markets will not serve mainly to take surplus stocks at little or no profit. On the contrary, the foreign export business has been and is treated as a perfectly legitimate branch of the lumber industry which, if operated as it should be, will not only redound to the advantage of the export business but to that of the domestic business as well.

(8) Inspection and Grading.

Regarding the standardization of grades and the inspection service, it may be well to state that most excellent work is now being accomplished by the Pacific Lumber Inspection Bureau, which has been in operation for ten years. It was originated by the manufacturers, and

is conducted at moderate cost and with the best talent that can be secured. The certificate of this Bureau is recognized as standard and is acceptable in all foreign markets. From the statements made by the manufacturers they are satisfied with the present arrangement, and we do not think they would view with favor the establishment by the Forestry Department of a bureau of inspection for foreign shipments of lumber. There may be some confusion between the grades of this coast and those prevailing in the buyers' country, but we are advised that this question is one of merchandising, and is a feature that direct selling would tend to eliminate, and if the manufacturer and foreign buyer were closer together unquestionably a better mutual understanding between them would be reached.

It is not always possible for the manufacturer to conform to the buyer's wants in grades and sizes, although the buyer may be accustomed to securing these grades and sizes in other species of wood; but here again the question of coöperation enters into the problem. If the manufacturer were in a position to place men in the several markets of the export field to study the conditions in person and consult with the real buyers and users of their product, in time all differences would be clarified and a much better understanding arrived at. It has heretofore been pointed out that it is impossible for an individual mill to carry on such work. Where the Forest Service could help in this matter would be, if they approve, to endorse grading rules and inspection service carried on by the manufacturers at their own cost. These rules now have this endorsement, as we understand, in connection with purchases for the Panama Canal and Alaska, and if this approval were given there need be no difficulty with the exporters.

While the questions submitted are serious and should be considered, they are by no means of major importance. What is desired on the Pacific Coast is an opportunity to enlarge the field of operations and to enlarge the

export trade; and it is the unanimous opinion of the manufacturers that an increased export trade at reasonable prices will be beneficial not only to the manufacturers engaged in this business but to the domestic mills as well.

(9) Importance of an American Merchant Marine.

Closely allied to the question under discussion is that of shipping in general, and particularly the development of a merchant marine upon which the American producer and merchant can rely. This war has taught many lessons, but none has sunk deeper into the consciousness of the American people than the conviction that through some means and by some method the commerce of this nation must be protected against injuries arising out of causes for which this country is in no wise responsible. No great nation can afford to have its oversea transportation in the hands of commercial rivals; and it is perfectly obvious that in our foreign trade, and to some extent in our domestic trade as well, the missing link is transportation. One of the great problems is to secure facilities to move commodities between markets promptly and at reasonable cost. As Mr. Charles M. Schwab has well said:

“What good is it to manufacture well and to sell well, if we cannot deliver the goods we manufacture and sell?”

This topic would in itself justify an extended discussion, but it is only one of the many factors touching the general subject under consideration; and although it is of great consequence its solution lies in other hands. It does, however, bear directly on the development of the export trade, and probably no industry has felt the malign effects of the lack of transportation more than has the foreign lumber trade on this coast. By far the larger portion of this business is done on chartered vessels, and not by the regular lines. The advance in charters has been such as to force lumber at the mill for foreign busi-

ness to cost and sometimes less. Lower than this it cannot very well go.

All rates are based on M feet of lumber, B. M. To give the Commission some idea of the course of charters since the war we submit the following data:

Normal rates to Sydney are from 30 to 40 shillings per M, or roughly about \$7.50 to \$10 per M. They have advanced to 97s. 6d. In September rates to Melbourne were 107s. 6d. or roughly about \$26 per M., B. M. To the West Coast of South America rates have more than doubled, being now about \$21 per M. To Cape Town they advanced from about \$15 per M to \$37 per M. To United Kingdom normal rates are about 50 shillings, or say \$12.50 per M. Changes have been so rapid it is difficult to keep a line on charters in this trade. In September one steamer was chartered at 192s. 6d., or say \$48 per M, and at that time space on the regular lines was costing (when it could be secured) 210s., or say \$50. When the rate is expressed in dollars, we have given the approximate figure, not calculating exchange with strict accuracy. What with lack of transportation and with rates on the bases quoted, the effect on the price of lumber at the mill is easily foreseen. Even with an abundant supply of ships on the rates given above, which in many instances are from two to four times the value of the product, business would have been restricted; but with a combination of both lack of tonnage and prohibitive rates the offshore business was not only curtailed but prices were forced down at the mill to the irreducible minimum. The normal price for a mixed cargo for Australia is about \$14 to \$15 per M; to China about \$2 less. In October Australian cargoes sold for about \$9.50 to \$10.50 per M, and to China as low as \$7.50 per M. Necessarily there was a restriction of business, as the only demand was that which had to be met. When the transportation is in the hands of others, and often controlled by the purchasers themselves, the producer is at their mercy if he desires to sell. Some have chosen the only other alternative

and closed their mills; others are running on part time rather than operate or sell under existing conditions.

It is very difficult to express in figures the enormous loss to the United States resulting from this failure to have tonnage to carry our products to the markets of the world. The selling price at home of commodities usually exported to foreign markets is the price at the point of consumption less freight, insurance, and other usual charges. The advances in charters on lumber represent increases running from 200% to 400% over normal. As no advance in lumber at point of production has been received (on the contrary, the price was forced to cost), it is apparent that the loss to the producers of lumber in this country runs into millions. Instead of securing any part of the advanced price, the producers of lumber for export have been compelled to sell at prices that in no instance showed a profit and in many cases did not even return cost, the entire advance being absorbed by the freight rate.

Even if the alternative theory is accepted, namely, that American ships would under the circumstances have advanced freights also, such advances, if we had had sufficient ships to transport our products, would not have been so great, and the freight money at least would have enriched our own people instead of foreigners. It is, however, when we get into the realm of food products that the direct loss to the American farmer is more strikingly apparent. On the Pacific Coast the price of wheat is fixed by the Liverpool price; and that price determines the value for all the wheat produced, whether exported or held for domestic use. In 1914, Oregon, Washington and Idaho produced about 61,000,000 bushels of wheat alone. On July 18, 1914, blue stem wheat sold on track at Portland, Oregon, for 83 cents per bushel, club wheat at 77½ cents per bushel. The rate to the United Kingdom that day by steamer was 30 shillings per ton or 19 28/100 cents per bushel. By February 10, 1915, the price of blue stem on track at Portland was \$1.58½, club wheat \$1.57

per bushel. Charters at that time had advanced but slightly, the rate on a British bark that day being 32 shillings or 20 56/100 cents per bushel. It will be observed that with charters normal the advance in price was all going to the farmer. Note what followed. On May 12, 1915, the steamer rate to the United Kingdom was 70 shillings, or 44 99/100 cents per bushel; and wheat, although advancing in Liverpool, sold on track at Portland for \$1.20 and \$1.14 per bushel for blue stem and club, respectively. On September 17, 1915, the steamship charter rate was 87 shillings 6 pence, or 56 24/100 cents per bushel; the price of wheat on the same day at Portland was 91 cents for blue stem and 86 cents for club. Since then charters have continued to advance, and in the latter part of November, 1915, 100 to 105 shillings were being asked for sailing vessels and within a fraction of 140 shillings for steamers to Europe. Wheat is about the same price that it was prior to the war. In this instance, while the actual charges may be paid by the ultimate consumer, the producer is directly affected, for the price he receives is that paid at destination, less the freight rates. In other words, his price is the Liverpool price less the freight and other charges.

The loss to the farmers of the Northwest only, it will thus be seen, amounts to millions. Applying the same test to the wheat production of the United States, the loss runs into staggering totals.

Even at the rates in force our trade is seriously affected; and at this time the congestion at every port is such that there is a substantial if not an actual embargo on movement. Not only is freight held in overcrowded terminals, but miles of side-track are filled with cars that cannot be unloaded.

In discussing the importance of dependable transportation facilities in export trade, a writer in the "Canadian Lumberman and Woodworker," June 1, 1915, urges most vigorously the establishment by the government, through some method, of "the necessary minimum supply of ship-

ping which will secure the progressive continuous growth of a solid export trade for British Columbia lumber." He insists that this is a requisite and essential if the oversea trade is to be developed. From reports of a more or less reliable character received recently there are indications that British Columbia or Canada is preparing to take some affirmative action in this matter.

The writer referred to asserted that it was through the ownership of vessels that Norway and Sweden established and maintained their lumber trade. It seems that in the eighties British ship owners sold to the Norwegians a great deal of sail tonnage fitted only for carrying lumber, coal, etc., and in consequence of having this tonnage a trade was developed wholly out of proportion to that warranted by her timber resources. He comments thus: "Without the absolute assurance of stability to the trade that was given by the possession of tonnage to move their goods, it is doubtful if the capital investments would have been so heavy or the consequent high skill of her planing mill stuffs developed." Referring to the Australian trade he writes: "The establishment of a regular line of steamers, sailing monthly from the Scandinavian ports to Australia, led undoubtedly to a gain of over 10,000,000 feet B. M. (nearly 50%) in the planed goods exported by Sweden to Australia in 1913 as against 1912."

Surely these facts, coupled with others equally striking with respect to our foreign trade in every commodity and with every country, must impress every loyal citizen with the conclusion that this nation of nearly one hundred million people cannot permit its foreign commerce either to be controlled by the policy of commercial rivals or to be at the mercy of difficulties in which alien nations may at any time be plunged. Our carrying trade must be, measurably at least, in our own hands, and we be as independent commercially as we are politically. Commercial independence cannot be attained, nor supremacy in international trade secured, with shipping facilities in the hands of other nations. This fact, which should have

been generally recognized years ago, is now accepted by all. It is of no consequence now to rehearse the various arguments which were used to lull us into fancied security, or to ask who probably inspired them. We are at present face to face with a condition which must be met, and all patriotic Americans should in this instance at least coöperate in an effort that will once again put and keep the American flag in the place on the high seas which our national dignity and commercial importance demand. The cost of learning the lesson,—of what the lack of an American merchant marine really means to us,—has been great; but if as a result a real American merchant marine is developed and maintained, it will be worth all it has cost.

President Wilson, on December 7, 1915, delivered his annual message to Congress. Among other things he dealt with the question under discussion. We quote the following:

“But armies and instruments of war are only part of what has to be considered if we are to provide for the supreme matter of national self-sufficiency and security in all its aspects. There are other great matters which will be thrust upon our attention whether we will or not. There is, for example, a very, very pressing question of trade and shipping involved in this great problem of national adequacy. It is necessary for many weighty reasons of national efficiency and development that we should have a great merchant marine. The great merchant fleet we once used to make us rich, that great body of sturdy sailors who used to carry our flag into every sea, and who were the pride and often the bulwark of the nation, we have almost driven out of existence by inexcusable neglect and indifference and by a hopelessly blind and provincial policy of so-called economic protection. It is high time we repaired our mistake and resumed our commercial independence on the seas.

“For it is a question of independence. If other nations go to war or seek to hamper each other's commerce, our merchants, it seems, are at their

mercy, to do with as they please. We must use their ships, and use them as they determine. We have not ships enough of our own. We cannot handle our own commerce on the seas. Our independence is provincial, and is only on land and within our own borders. We are not likely to be permitted to use even the ships of other nations in rivalry of their own trade, and are without means to extend our commerce even where the doors are wide open and our goods desired. Such a situation is not to be endured. It is of capital importance not only that the United States should be its own carrier on the seas and enjoy the economic independence which only an adequate merchant marine would give it, but also that the American hemisphere as a whole should enjoy a like independence and self-sufficiency, if it is not to be drawn into the tangle of European affairs. Without such independence the whole question of our political unity and self-determination is very seriously clouded and complicated indeed.

"Moreover, we can develop no true or effective American policy without ships of our own—not ships of war, but ships of peace, carrying goods and carrying much more; creating friendships and rendering indispensable services to all interests on this side the water. They must move constantly back and forth between the Americas. They are the only shuttles that can weave the delicate fabric of sympathy, comprehension, confidence, and mutual dependence in which we wish to clothe our policy of America for Americans." * * *

"Our goods must not lie piled up at our ports and stored upon side tracks in freight cars which are daily needed on the roads; must not be left without means of transport to any foreign quarter. We must not await the permission of foreign shipowners and foreign governments to send them where we will."

INFLUENCE OF STANDING TIMBER EXIGENCIES.

It would betray insincerity, or at least superficiality, were this brief to ignore the fact that many points it discusses involve standing timber problems to an extent

which it does not cover in detail. The tremendous investment in standing timber, involving a time period which makes interest calculations profoundly important; the circumstances and requirements of this investment; and the dependence of the industry therein on outside capital—all evidence a problem of public economics and of financial pressure upon the raw material which cannot but influence the conduct of operation. It is significantly true that such influences in the past, and their trend in the future, cannot fully be disclosed by any conservative review of manufacturing conditions today. It is also true that while many manufacturers are timber owners, many timber owners are not manufacturers and may, on some details, have a different viewpoint. Generally speaking this would involve longer time periods in considering any phase or necessity of the industry.

To enter into a full discussion of these questions would therefore perhaps be beyond our credentials as well as certainly beyond our purpose. It would require covering the whole range of economics as related to ownership or control of natural resources. We assume that they have been the subject of more appropriate investigation whose conclusions are available. It is sufficient here to emphasize that whatever the exigencies of forest ownership, and whatever the just demands these may make, they must inevitably require favorable conditions of manufacture and distribution. We need not fear they will conflict with any argument for such herein, but may confidently expect that they will prove still further necessity for permanent stability of the industry.

HISTORY AND PURPOSES OF THE LEGISLATION.

(1) In General.

The act creating the Federal Trade Commission was passed too recently, and is too much a part of contemporary history, to require a statement of its genesis.

Some time prior to the introduction of the bill in Congress to create a Federal Trade Commission, the Bureau of Corporations had undertaken to make a "survey of the industrial field." Mr. Joseph E. Davies, when Commissioner of Corporations, in an address delivered by him before the National Association of Hardware Manufacturers at Atlantic City, October 31, 1913, said:

"It is the intent and purpose of the Bureau of Corporations, acting under the direction of the President of the United States, to make a survey of the industrial field and an intensive investigation of this subject. We shall enter into this investigation with the sole intent of working out, in a scientific and fair-minded spirit, the facts absolutely as they are. So vital and so fundamental is this problem that to attack it in any other spirit would be criminal. What is needed is light, not heat." * * *

"We ask for the sympathetic coöperation of the business men of this country. This problem reaches down to the fundamentals of government itself. It is a problem that will tax the greatest minds of this generation and the next. In its solution lies a challenge to the constructive genius of the financier, to the imagination and the heart of the captain of industry. In its solution there lies a compensation greater than can be found in private fortune; for in it lies service for the children of men yet unborn."

(2) *President's Message of January 20, 1914.*

The President in his message of January 20, 1914, recommended the creation of an Interstate Trade Commission and in his message referring to the purpose of the proposed legislation said:

"What we are purposing to do, therefore, is happily, not to hamper or interfere with business as enlightened business men prefer to do it, or in any sense to put it under the ban. The antagonism between business and government is over. We are now about to give expression to the best business judgment of America, to what we know to be the business conscience and honor of the land. The Gov-

ernment and business men are ready to meet each other half-way in a common effort to square business methods with both public opinion and the law." * * *

"The business of the country awaits also, has long awaited and has suffered because it could not obtain, further and more explicit legislative definition of the policy and meaning of the existing anti-trust law. Nothing hampers business like uncertainty. Nothing daunts or discourages it like the necessity to take chances, to run the risk of falling under the condemnation of the law before it can make sure just what the law is." * * *

"And the business men of the country desire something more than that the menace of legal process in these matters be made explicit and intelligible. They desire the advice, the definite guidance and information which can be supplied by an administrative body, an Interstate Trade Commission." (Italics ours.)

(3) *Discussion at Meeting of Chamber of Commerce of the United States, Washington, D. C., February 12, 1914.*

It may be remembered that the Chamber of Commerce of the United States held its second annual meeting at Washington, D. C., February 12, 1914. At this meeting much of the discussion revolved around the so-called "Trust Legislation." In no instance were monopolies in production or trade defended or even approved. On the other hand, coöperation in business was advocated by every speaker, on the ground, as stated by Dr. Van Hise, that "coöperation in business may be just as advantageous to the general public as is coöperation in education, in social work, or any other line of human endeavor. Coöperation is the cry of humanity in this twentieth century, and commerce should not be eliminated from sharing its great benefits. In our desire to retain legitimate competition, we should take care not to outlaw legitimate coöperation." The Interstate Commerce Commission and the State Commissions having control of public utilities seemed to some to "point the way for the next step

in the solution of our industrial problems"—in other words, the creation of a Trade Commission with power to act constructively in dealing with industrial and trade matters. The uncertainty and doubt as to how the Department of Justice or the Courts would construe this or that act, or "the intent" they would ascribe to it, and the effect of this uncertainty on business was a matter of frequent comment. Indeed, there can be no question but that the business interests of the country were looking for legislation that would substitute certainty for doubt and clearness for vagueness, and anticipated that if a Commission to deal with business were created it would be endowed with sufficient power to be a guide to honest business rather than another punitive measure with the negative "thou shalt not" as its only effective provision.

Mr. Louis D. Brandeis discussed "The Democracy of Business" at this meeting. Referring to the proposed legislation, he said: "I want, however, to say this: The program of President Wilson is not a program of free and unrestricted competition, but it is a program of regulating competition instead of regulating monopoly.

* * * And in the carrying out of this idea of advancing business, of putting business into its proper place among human activities the Government of the United States may play a great part. I look forward to the Trade Commission which we are about to establish as an instrument which will be of inestimable advantage to the business and the future of America by making the common property and the common knowledge of American business men the best that has been done and is being done in every department of business throughout the world."

(4) Introduction of Bills in Congress.

Identical measures, H. R. 12120, by Mr. Clayton, and S. 4160, by Mr. Newlands, providing for the creation of a Federal Trade Commission, were introduced in the House and Senate respectively on January 22, 1915. No par-

ticular purpose would be served by following the legislative course of the bills through Congress, but it is known that much of the debate revolved around Section 5, dealing with "unfair competition," its meaning and effect. It is, however, beyond question that the Commission is endowed with semi-judicial powers to prevent "unfair methods of competition," which by the law are declared unlawful in commerce, and is empowered through appropriate means to enforce its administrative orders.

(5) *Unfair Methods of Competition—Extracts from Committee's Report—Comments.*

Senator Cummins, who opposed defining the meaning of the term "unfair competition," stated his views both as to why it was not susceptible of definition and as to why it was unwise to attempt to define it, and gave his idea of the duty of the Commission in determining if "unfair competition" or "unfair methods of competition" were being practiced, thus:

"I affirm that when we say no man shall be guilty of unfair competition in commerce we have laid down a rule that is as well understood and as capable of definite application as the great majority of the statutes which we have enacted. We are dealing with commerce, with business. It has manifold forms. It is of infinite variety; and it is utterly impossible to prescribe a rule of conduct relating to commerce so definite that there can be no difference of opinion respecting its application. We never have done it. No country ever did it. We never will be able to do it." (Congressional Record, July 31, 1914.) * * *

"It would be the duty of the board to consult the custom of merchants, the habits of trade, the writ-decisions of the courts, the learning of the time, the usages of studious and thoughtful men, all of which go to make up our understanding of the words 'unfair competition.' It will be the duty of the Commission to apply those words in that sense precisely as it is now the duty of the Court to apply the words 'un-

due restraint of trade' in the sense in which we commonly understand that phrase." (Congressional Rec., July 31, 1914.)

The bill was reported back to the Senate June 13, 1914 (Report No. 5977). The following statements from the report shed some light on the purpose of the bill and the powers of the Commission:

"The value of such administrative oversight and control has been recognized in the banking and transportation business, and we have in the Comptroller of the Currency, the newly-created Federal Reserve Board, and the Interstate Commerce Commission practical illustrations of the operation of such organizations and frequent examples of the beneficial effects of their activity. As the general realization of these facts is widespread and confined to no one particular party, the introduction of this bill for a trade commission simply responds to a general need." (p. 9.) * * *

"The powers, of course, must be large, but the exercise of the powers will not be against law-abiding business, but against lawless business. It will be persuasive and corrective rather than punitive so far as well-intentioned business is concerned. Although the Commission is given a wide discretion, experience has proved that governmental administrative bodies seldom abuse such authority. To attempt to make precise limits between what they may and what they may not do would often seriously hamper their successful administration." (p. 12.) * * *

"With the exception of the Knight case, the Supreme Court has never failed to condemn and to break up any organization formed in violation of the Sherman law which has been brought to its attention; but the decrees of the Court, while declaring the law satisfactorily as to the dissolution of the combinations, have apparently failed in many instances in their accomplishment simply because the courts and the Department of Justice have lacked the expert knowledge and experience necessary to be applied to the dissolution of the combinations and the reassembling of the divided elements in harmony with the spirit of the law." (p. 12.) * * *

"The Committee gave careful consideration to the question as to whether it would attempt to define the many and variable unfair practices which prevail in commerce and to forbid their continuance or whether it would, by a general declaration condemning unfair practices, leave it to the Commission to determine what practices were unfair." (p. 13.) * * *

"It is believed that the term 'unfair competition' has a legal significance which can be enforced by the Commission and the courts, and that it is no more difficult to determine what is unfair competition than it is to determine what is a reasonable rate or what is an unjust discrimination. The Committee was of the opinion that it would be better to put in a general provision condemning unfair competition than to attempt to define the numerous unfair practices, such as local price-cutting, interlocking directorates, and holding companies intended to restrain substantial competition." (p. 13.)

If this Commission has, even in a measure, the oversight and control of unfair methods of competition and conduct of business that the Comptroller of the Currency, the Federal Reserve Board, or the Interstate Commerce Commission have with respect to subjects under their jurisdiction, it can do many affirmative acts in aid and furtherance of commerce. Mr. James A. Fayne, of Boston, prepared a paper on "The Federal Trade Commission; The Development of the Law Which Led to Its Establishment," which was published in "The American Political Science Review." In closing his analysis of the law he said:

"The Commission, therefore, comes on to this field of combat with the 'rules of the game' fairly well defined, and with the last court of the land having intimated clearly enough three things—*just what are unfair methods of competition, just what is restraint of trade and just what is monopoly. To this extent, at least, it should not be difficult for the new board to coöperate with the business interests of the country, suggesting and recommending, and thereby reducing to a minimum the likelihood of disturbing suits for dissolution, which latter can hardly be con-*

templated with equanimity in the existing delicate situation of commerce and finance." (Italics ours.)

(6) *President's Address of February 3, 1915.*

The act was approved September 26, 1914. On February 3, 1915, the President addressed the Chamber of Commerce of the United States, and in referring to foreign trades said:

"The question arises, therefore, how are the smaller merchants, how are the younger and weaker corporations going to get a foothold as against the combinations which are permitted and even encouraged by foreign governments in this field of (foreign) competition? There are governments which, as you know, distinctly encourage the formation of great combinations in each particular field of commerce in order to maintain selling agencies and to extend long credits, and to use and maintain the machinery which is necessary for the extension of business; and American merchants feel that they are at a very considerable disadvantage in contending against that. The matter has been many times brought to my attention, and I have each time suspended judgment. *I want to be shown this: I want to be shown how such a combination can be made and conducted in a way which will not close it against the use of everybody who wants to use it.* A combination has a tendency to exclude new members. When a group of men get control of a good thing, they do not see any particular point in letting other people into the good thing. *What I would like very much to be shown, therefore, is a method of coöperation which is not a method of combination.* Not that the two words are mutually exclusive, but we have come to have a special meaning attached to the word "combination." Most of our combinations have a safety lock, and you have to know the combination to get in. *I want to know how these coöperative methods can be adopted for the benefit of everybody who wants to use them, and I say frankly if I can be shown that, I am for them. If I cannot be shown that, I am against them. I hasten to add that I hopefully expect that I can be shown that.*" (Italics ours.)

(7) *Address of Mr. Joseph E. Davies, February 15, 1915.*

We take the following excerpts from the address of Mr. Joseph E. Davies, then Commissioner of Corporations and now Chairman of this Commission, discussing the Federal Trade Commission Act, as published in "The Nation's Business," February 15, 1915:

"The term of seven years, and the successive expirations of the respective terms insures continuity of purpose and that there shall be finally applied to this problem the judgment and experience of a body of business men of trained and specialized knowledge, who are designed not only to bring an understanding of the theoretical and economic and legal questions involved, but as well a sympathetic appreciation of the practical difficulties and troubles of industry, together with a comprehensive perspective of the industries of this country and the interests and welfare of the general public who are affected most by these conditions. It is the logical, scientific and efficient way of meeting the situation." * * *

"The justification of the Commission will be found in large measure by the extent to which the assembling, digesting and interpreting of these data shall develop into constructive aid to business enterprises of the country, and to the extent to which it will render service in giving a broad, sympathetic and accurate basis for the action of this governmental agency in the discharge of its functions in the service of the general public." * * *

"But the great and momentous task which confronts the people of this country and the business men of this country in connection with this problem is bigger than such considerations. The problem reaches down to the fundamental question of the kind and character of the government we shall evolve in this great experiment of government, which challenges, indeed, the existence of democracy itself. No republic ever has, or ever will, live except as it solves correctly its relation and the relation of all of its people to the production of wealth. Here lies a challenge to the big-mindedness of the captain of industry, to the philosophy of our economists, to the

thought of our scholars, and to the patriotism of our citizenship.

"The purpose and object of this legislation has been and is to convert the anarchy of unlicensed competition into a condition under law of competitive liberty, which will preserve those seeds of individual initiative and enterprise which have contributed to the art, to the science, to the literature, and to the welfare of our civilization, so that the seeds may germinate and flower into still greater blessings for mankind." (Italics ours.)

(8) *Statement by Mr. Edward N. Hurley.*

In an issue of the "Federal Trade Reporter," Commissioner Hurley is reported to have said:

"In European countries, manufacturers and merchants, aided by their governments, have developed a high state of efficiency, which enables them to sell their goods in the markets of the world. The Federal Trade Commission desires to do what it can to help bring the American manufacturers and merchants on equal terms with these foreign competitors in order that they may be able to get and to hold our share of foreign trade."

(9) *Purpose of the Act.*

General Boyle has with great care gone through what might be termed the contemporary legislative history showing the purposes of this legislation, so we have confined ourselves to the briefest contemporary *business* thought and *official* expressions as to the intent of the proponents of the law.

There can be no question as to what was in the mind of the business men of the United States at the time this legislation was enacted, nor as to what it was supposed the law covered. No truer words were ever spoken than when President Wilson said: "Nothing hampers business like uncertainty. Nothing daunts or discourages it like the necessity to take chances, to run the risk of falling under the condemnation of the law before it can make

sure just what the law is," and he spoke for every interest in the country when he followed the above statement by these reassuring words:

"And the business men of the country desire something more than that the *menace of legal process* in these matters be made explicit and intelligible. *They desire the advice, the definite guidance and information which can be supplied by an administrative body, an Interstate Trade Commission.*" (Italics ours.)

This statement then followed:

"The opinion of the country would instantly approve of such a Commission."

Is it not pertinent to ask what the words "guidance and information," as used, mean? Taken in connection with the context, the reference to "uncertainty," to the menace of "legal process," to the discouragement attendant on taking chances because of inability to know what the law is, can it be a matter of doubt that what must have been in the President's mind was a remedy for an existing condition which was plaguing the business man and hampering business? And what was the trouble, what were the things that were harassing business? The President himself told. They were the uncertainty of the law, the vagueness of the line separating that which might be found lawful from that which might be found to be unlawful, and the discouragement which necessarily accompanied the taking of chances with consequent penalties, before one "can make sure just what the law is." With the context in mind, with the purposes of the proposed law in view, it is unreasonable to assume that all that was meant was the creation of a board simply to advise as to more efficient operating methods, or to furnish trade information. For these purposes only no commission was necessary. There can be but one conclusion as to the intent of the proposed law, and that is that an administrative body was to be created with power to prevent unfair methods of competition no matter what its form, to pro-

tect business against the menace of this kind of competition, to advise, *before* and not *after* the harm was done, and to advise upon the very matters and things that brought about and justified the enactment of the law. In other words, the Commission is to be a constructive agency. We agree with the statement of Mr. Brandeis that in "putting business into its proper place among human activities the government of the United States may play a great part." Indeed, we go further and say it should play this part. The spirit of "sympathetic cooperation of the business men of this country" asked for by Mr. Davies is being given in full, and with such a spirit much will be accomplished. In one of Chairman Davies' addresses he stated: "The purpose and object of this legislation has been and is to convert the *anarchy of unlicensed competition into a condition under law, of competitive liberty*, which will preserve those seeds of individual initiative and enterprise which have contributed * * * to the welfare of our civilization, so that the seeds may germinate and flower into still greater blessings for mankind." We, of course, do not know just what was in the mind of the speaker, but the reference to the "anarchy of unlicensed competition" must and can only mean that there were kinds of competition which were under the control of the Commission, and that it was the duty of the Commission to protect, and that it intended to protect, industry and individuals against the character of competition described, and against methods of competition which it deemed unfair.

(10) *Powers of Commission.*

The Commission has a discretion which it can exercise within its powers, to define and limit the point to which competition may go, that is to say, to define unfair methods of competition. There can be no doubt that the declaration of Section 5 "That unfair methods of competition in commerce are hereby declared unlawful" is all-inclusive and defies and was intended to defy strict defini-

tion. "Unfair methods" are declared to be unlawful, and this Commission is empowered and directed to enforce this mandate of the law. Moreover, the Commission is to be the judge of what constitutes unfair methods, just as the Interstate Commerce Commission determines what are unreasonable rates, or what acts constitute undue preferences, etc. This power is as broad as the evil sought to be controlled, and the machinery is supplied by law to ascertain and find the facts, to make an appropriate order, and to enforce it.

It is true that the law is not specific and does not state in exact terms what the Commission may or may not do, or attempt to define just what acts are "unfair"; and it is somewhat difficult to see how a law of this character, with the particular objects in view, could be framed so as to be more explicit without impairing its usefulness and effectiveness. The yard stick by which the powers of the Interstate Commerce Commission in fixing rates or dealing with matters under its jurisdiction are measured is no more definite. Charges for transportation must be "just and reasonable," and "every unjust and unreasonable charge" is "declared to be unlawful." "Undue or unreasonable preferences" are forbidden, etc. These and the like, are the declarations found in the Act to Regulate Commerce, under which the rates and practices of the railroads of the United States are regulated and controlled. These powers are no more definite than the all-inclusive declaration of Section 5 of The Federal Trade Commission Act, "That unfair methods of competition in commerce are hereby declared unlawful."

(11) Operation of Law.

The operation of a law of this kind depends very largely upon the purpose and spirit of those whose duty it is to enforce and carry out its provisions. It can be destructive or constructive. A law can be limited in its effect or can be expanded, depending upon the opinion of those having to do with its enforcement as to the real

purpose sought to be secured by the legislation. St. Paul, in his Second Epistle to the Corinthians, 3d chapter, 6th verse, thus states the spirit in which the words of the New Testament should be taught: "Who also hath made us able ministers of the New Testament; not of the letter but of the spirit; for the letter killeth but the spirit giveth life."

It is in this spirit that the provisions of this law must be construed, if it is to fulfill the evident purpose of its proponents, as well as the hope and expectation of the industrial and commercial interests of this country.

We concede the foregoing observations on the law to be general in their nature, but as General Boyle will consider it in detail we will not pursue the discussion. No matter what differences of opinion may exist as to the limit of the powers of the Commission, some things they can certainly do—both affirmatively and negatively. We have heretofore suggested methods through the operation of which improvement may be directly brought about by those engaged in the industry. There are, however, causes affecting the industry detrimentally and of public interest over which they have no control, and in connection with which this Commission has power both to act and to advise. To these matters we will as briefly as possible and without unnecessary repetition address ourselves.

(12) Action the Commission May Take.

We, of course, appreciate, that neither the Commission nor the public is interested in the details of any business, simply because it is a business, and because any healthy-minded man wishes his neighbors well. We know that the basis and reason for the inquiry must go deeper than that, and that there must be some public interest to be served in an inquiry of this kind on which to predicate any request for action by this Commission.

We believe that as a result of the extended hearings in this matter and of independent investigations made by

other governmental agencies it will be found that there is a public interest to be served, and that the following conclusions are fairly deducible from what might be termed the testimony:

(13) *Facts.*

I. No "lumber trust" as this term is generally understood exists.

II. The lumber manufacturers of the United States do not, indeed cannot, control either the price or the output of lumber, nor have they been engaging or are they now engaged in harmful and injurious trade practices to the detriment of the public.

III. No "timber trust" composed of timber owners in the United States, who by combination or otherwise have controlled the price and output of stumpage to the detriment or injury of the public, exists.

IV. The lumber industry generally for some time past has not been in a sound condition, and has not been profitable nor in the condition, from a business standpoint, in which so large an economic and industrial factor should be.

V. For some time past, neither the manufacturer of lumber nor the timber operator has received undue or excessive profits, either in the operation of the mill or as an investor in timber.

VI. From the standpoint of the conservation of standing timber and of its fullest use, the prevailing methods of taxation of standing timber are not to the public interest, are unsound, are not calculated to produce the best results, and will unless modified lead to waste and excessive cutting, to the injury of the public.

VII. Causes do exist and have existed generally within the industry which are largely within the control of the operators and which have contributed to existing conditions. Among them might be mentioned lack of coöpera-

tion and associated effort; unscientific methods of accounting; indirect and uneconomical distribution, failure to refine product; lack of integration, etc. On the other hand the operators and the industry have constantly been laboring under disadvantages they could not overcome. Among these is an adverse public opinion based upon misinformation and misapprehension of fact.

VIII. A number of causes exist which are not within the control of those engaged in the industry, and which operate to its detriment. Some of these are taxation and adverse local legislation, which are within the control of State or other municipal authorities. Others are: lack of transportation facilities, both in foreign and domestic water-borne trade, selling in markets where foreign combinations largely control, aid in various forms given by foreign countries to their nationals who are competing in the same markets with our producers, unfair methods of competition both in foreign and domestic trade, competition from National Forests, discouragement of co-operation, as well as others which might be named.

IX. Operators manufacturing lumber for export are placed at a great disadvantage in certain markets such as Australia and New Zealand, owing to combinations and methods having for their purpose the control of such markets. The export business is not profitable, nor are the mills securing a fair price for their product; and while there are opportunities for a large increase in the export lumber trade, yet owing to the wide area to be covered and the conditions as disclosed by these hearings, such trade cannot be developed properly except through the closest coöperation of those engaged therein. The export trade is largely dependent on shipping facilities, which in this country are wholly inadequate to care for the business. In our domestic trade also we compete with citizens of other nations who can use a vessel flying any flag from their ports to ours, while we can use only American-built, American-owned, and American-operated vessels.

Charters favor British Columbia ports to Atlantic ports, as against any ports of the United States on the Pacific Coast to the same ports, \$2.50 to \$3 per thousand. An increased export trade would be of benefit to the industry and to the country at large.

* * *

If the foregoing conclusions are justified by the facts, and we believe they are, then they should not be permitted to rest simply as *assertions of counsel*, but should be *established publicly and finally as findings by the Commission*. If they are not the facts, the Commission should announce such conclusions as they feel the facts justify.

The lumbermen have no desire to condone or to minimize their own faults, or the weaknesses *within* the industry measurably under their control. Therefore, in connection with the matters hereinbefore dealt with under Section 5 of the Domestic division of our treatment of particular situations, i. e., "matters more or less under the control of the manufacturers," etc., the Commission can be of no more real service, can show its sympathetic interest in no more efficacious way, than by frankly and candidly pointing out the defects and faults observed, *and at the same time suggesting the remedies that in its judgment might be applied to correct them*. This would be constructive work; this would be affirmative and not negative relief.

Assuming the facts to be as stated; assuming that the industry is not in a healthy condition, that it has remedied or will remedy the deficiencies and weaknesses within itself, what will be done with respect to the causes for existing conditions for which the operator is not responsible? As to these it is believed the duty of the Commission and its responsibility as a *Trade Commission* are as plain, direct, and obligatory as they are in passing on the facts.

If the Commission, after a hearing of this character, had performed its full duty, merely by conducting the

hearing, but is powerless to act, one might well say *cui bono?*

It is not believed, however, that such will be the case. Therefore, if the facts are as stated, the Commission will determine the conclusions to be drawn therefrom. The following questions indicate the line of action we believe the facts lead to. For the sake of clearness and brevity we submit them in the following form:

(14) *Questions.*

I.

To what extent is coöperation and combination necessary or desirable in the export trade, and how far, without affecting the public injuriously, may such coöperation or combination be safely carried? (In this connection, in the opinion of the Commission further legislation may or may not be necessary, which fact would, of course, be stated.)

II.

Wherein should existing laws be amended or supplemented in order to increase our water transportation facilities and place our shipping on a footing equal to that available to foreign vessels, in both the domestic and the export trade?

III.

What, if any, measures should be adopted by the Federal Government to meet and offset the effect of competition, both in the domestic and in the export trade, from countries whose policy it is to assist their nationals engaged in such competition by governmental means of what nature soever?

IV.

What is needed in the way of improvement in the administration of the National Forests, so as best to serve both the present and the future needs of the country?

V.

What, if any, features of the lumber industry, or of its conduct, considering the number of people employed, the

amount of capital invested, and the stake which the country at large has in it, constitute in the opinion of this Commission unfair methods of competition which are or may be injurious to the interest of the public? And, if the Commission find any such methods to exist, to what extent does it believe that their elimination would tend to stabilize prices, prevent overproduction, and help the business generally?

VI.

To what extent will it benefit the public to allow coöperation between lumbermen in the domestic trade? And, in this connection, to what extent, in the opinion of this Commission, is it necessary or desirable for groups of lumber manufacturers to organize for the purpose of exchanging information, economizing distribution, creating selling agencies, and generally advancing the industry's interests in any and all matters except the fixing of prices?

VII.

To what extent will it be to the interest of the public at large to permit agreements among lumber manufacturers having for their object the curtailment of output so as more scientifically to adjust the supply to the demand?

(15) Suggestions.

The remarks herein contained on the conduct of the National Forests are not meant as a criticism, but are intended rather to call attention to a very important factor in the general problem. It is far from our purpose to criticize the Forest Service—on the contrary, our intention is to aid and assist in securing the fullest coöperation of other governmental branches in its efforts to establish a broad national policy touching the National Forests; a policy which, we hope, will be permanent and constructive in its nature, and will be carried out logically and continuously to its final conclusion. Neither do we wish to be understood as suggesting that sales of all tim-

ber from the National Forests should cease. It is desirable that such sales be made where there is an actual demand by customers operating under the requirements of sound business; but we do not believe it to be good policy from a public standpoint to sell public timber simply to secure revenue, or where such selling will induce bad management. It is obvious that sales to settlers, miners, and for local purposes, etc., cannot be criticized. But all forests and the forest industry as a whole are of national concern and should be treated under sound economic principles. Moreover, we are impressed with the fact that those in charge of the Forest Service are quite as alive to the importance of the question under consideration as are we, and we look with confidence to them for constructive recommendations as a result of their own studies. On any sound basis the interest of those engaged in the industry is identical with the interest of the Forest Service.

With reference to association work and coöperation in domestic trade we have this to suggest: Under the law merely combining is not in violation of the Sherman Act. The courts hold that in order to come within the condemnation of the law there must be some actual unreasonable interference with the natural course of trade. There are restraints of trade which are not undue or unreasonable. There are combinations that are not illegal. These conclusions we believe correctly state the law. But, after all is said, there still remains the element of uncertainty and of doubt as to what acts will be held to be undue or unreasonable. Different judges with different bents of mind, and with different economic trainings, might and probably would reach different conclusions on the same state of facts. One judge might hold that coöperation prevented competition, and send the offenders to jail. Another might say that the efficiency produced, the savings made, the expenses eliminated, and the waste saved by coöperation were in the interest of the public, and so approve what the other judge condemned.

It is this uncertainty, this constant menace hanging over business—a fear, if you will, of consequences from acts which seem entirely right and in accord with business principles—that must be removed (and which the vast majority of the people believe this Commission has power to remove) if business is to go ahead as it should.

Moreover, business men have been and are being urged to coöperate, to associate, to work out common problems together. They realize the soundness of this advice, but when and where does coöperation and association cease to be beneficial, and when is the line reached beyond which associated effort may not go, except under the menace of the strong hand of the Department of Justice, whereby penalties instead of benefits will be the reward of those engaged in the industry? It is useless to assume that these questions are not in the minds of men. It is vain to say that the lawyer can draw this magic line. He might, if he could foresee how each and all of the many judges before whom a case may be brought will construe the same facts. The lawyer knows he cannot do this, and his client knows it also. Therefore, one goes round and round a never ending circle of doubt and disappointment, ending generally in refraining from doing that which should be done, because one wisely will not take a risk that may involve not only a momentary loss but even, perhaps, shame and disgrace at the end of an honorable and useful life. The Commission, therefore, should, if it is to meet the situation fully, declare within certain limits what may be done in coöperation by the various units of an industry, and what cannot be done.

The purpose of the lumbermen of this country in appearing before this Commission has been to provide the information required to assist it in rendering to Congress a report on the state of the lumber industry, as well as in affording the industry such relief and advice as the Commission may find to be proper and necessary, and within its power to grant. With its report to Congress the Commission may submit recommendations for legis-

lation. Unquestionably such recommendations, based as they will be upon extensive investigations and the fullest consideration of every phase of the question, cannot fail to have a great influence on congressional action. The scope of such recommendation, or of the resulting laws, is of course outside the purpose of this brief; but we wish to urge upon this Commission with special emphasis that the questions heretofore submitted refer to matters which in our view must be covered if the lumber industry as a whole (and with it the great mass of people and the very large interests dependent upon it) is to be put upon a sound and business-like basis.

We feel that the industry really needs the advice of this Commission and such assistance as it can properly give; and it is our hope that the Commission will conclude to give such advice and to announce its definite conclusions on the facts as developed.

(16) Summary.

In closing, we desire to repeat that in no sense have we covered the whole ground. We have dealt very briefly with the history of the lumber trade in the Pacific Northwest and traced its development in the domestic market. We have presented a brief survey of conditions in the foreign field, sketching the effect of the policies of foreign countries and the need for some similar policy in this country. We have touched upon the conditions caused by our shipping laws and the disastrous results of these conditions as exemplified in the effect of the war on our transportation problems. In all this we have used the lumber industry of the Pacific Coast, and particularly of the Northwest States, as an example, because in that section many peculiar problems exist, and the evils of the present state of things are very sharply discernible. But we have no intention of having it even inferred that that part of the country is the sole one needing relief. The fundamental difficulties, as this Commission is well aware, lie deeper than any merely sectional differences.

The truth is that the time has come for putting this country in the place that it should occupy. The lumber industry is but one phase of the work. Our laws, so far as they are antiquated and unscientific, should be altered so as no longer to cripple American business, both at home and abroad, simply because it is American. The commercial sense of the nation must be awakened to the conditions now prevailing and which will prevail after the war in other countries, and to a realization of our irrevocable connection with the rest of the world, if we are to participate, as we should, in the world's trade.

In presenting the various phases of the question, while not desiring to do so, we feel that we may have unduly trespassed upon the time and patience of the Commission. If so, it is because of the deep sense of obligation we feel and the duty we owe, not only to the industry we are called upon to represent and to this Commission, but to the country as well. As we see it, the action of the Commission in this case will be epoch-making. It will mark a milestone in the progress and development of the industry and commerce of the country. It will, we believe, give inspiration to the business men to press forward on sound and right lines in the trade routes of the world. We know the economies in production and distribution practiced by our foreign competitors. We know that we must meet commercial training which is quite as efficient in the walks of peace as foreign military organization has been effective on the fields of war. We know that other governments in the past have been more alive to the importance of trade and commerce from a national standpoint than has our own. An awakening to these facts has come, and this country is stirred as it never has been before with the desire to promote and advance its interest by developing its commerce throughout the world. It is a proud thing to be called upon, as this Commission has been called upon, to lead in such an enterprise. Rarely do men have a greater privilege or opportunity of serving their country than has been granted

to the members of this Commission. But, as we have heretofore stated, we have new problems, and we must be prepared to meet them. In a recent address before the American Manufacturers' Export Association in New York the Chairman of this Commission, speaking of the foreign competition we are to meet, is reported to have said:

"When these conditions will obtain in international industry it will require all of our vision and discipline, enterprise and conservatism, sagacity and daring, to meet them. It will require that our industries shall be integrated and stabilized so that not only will the economics of sustained production be available, but it will require that the social well-being of the workers shall also be sustained upon a proper level, to the same end. It will require a large-minded intelligence and vision in the division of the fruits of industry between capital and labor. Socialized autocracy did this before this epochal war, in a manner that challenged the admiration of the world. It is our task to demonstrate that representative democracy can be equally efficient and serviceable. * * *

"The economies of large-scale production to the extent that they exist, the advantages of integration of industry, the sustaining force of stabilization in industry, the prevention of feast and famine, the prevention of cutthroat competition, can all be encompassed in a democratic state without yielding to monopoly in principle or in effect. The problem of democracy is to conserve the efficiencies of industry to the highest degree that is compatible, with the fundamental conception of liberty and freedom in industry. The problem of government is not only not to thwart efficiencies, but to stimulate them, to aid them, to develop them to the highest degree that is compatible with the general welfare."

Whether correctly quoted or not, the principles stated and the methods suggested are sound and on right lines and must be followed if we are to succeed.

We desire to express the deep appreciation of those connected with the lumber industry, and particularly

those who have had the pleasure and privilege of taking an active part in this investigation, of the unfailing patience, courtesy, and interest which the Commission has shown throughout these hearings. If the lumbermen have left anything undone or unsaid they alone are to blame, for the Commission limited them neither as to time nor as to character of testimony, so long as it would shed any light on the questions involved. Counsel who have been engaged in this case also wish to testify to their deep sense of obligation to the Commission, for the kindly and generous treatment accorded them throughout this hearing. It has been their desire to aid the Commission in every way possible; and if they have succeeded in any degree in lightening its labors or aiding in the solution of a difficult problem, they are more than satisfied.

We now leave the case in the hands of the Commission with the feeling that they will approach its consideration in a sympathetic spirit, conscious of the importance of the task and of what the results of its deliberations may mean to the commerce and industry of this country.

There are, here and there, encouraging signs. Opinion is slowly rousing, and is seeking guidance. This Commission, if it will, can, by educating, moulding, and concentrating that opinion along the soundest and broadest lines of statesmanship, render to this country a service of incalculable value.

JOSEPH N. TEAL,
L. C. BOYLE,
ROGERS MacVEAGH,

Counsel for National Lumber Manufacturers Association.

January, 1916.

APPENDIX A.

COMPOSITE STATEMENT OF THE COST OF MANUFACTURING LUMBER.

The following statements and comments comprise the body of the formal report on the Composite Statement of the Cost of Manufacturing Lumber, compiled by Mr. John G. McIntosh, Certified Public Accountant, in pursuance of instructions of a committee of the West Coast Lumber Manufacturers' Association.

A form of cost statement, with explanations showing the particular expense to be included in each item of the cost on a uniform basis, was prepared and sent to 66 mills. Twenty-eight mills contributed statements. The failure of the other mills to do so was in most instances undoubtedly owing to pressure of regular office routine work, which made it impossible to revise the old cost accounts to fit the uniform statement.

"The Committee authorized the auditing of the statements received. It was found inadvisable to check eight of them, for the following respective reasons:

"(1) Would require some checking at San Francisco. (2) None of present office force was employed in 1913, and they being unfamiliar with the cost accounts of that year it was felt that an audit of the statement might consume too much time. (3) Did not operate in 1913, but their offer to furnish complete figures for the first half of 1914 was accepted. It was, however, found undesirable to incorporate 1914 figures in 1913 composite statement. (4) Had a very short run in 1913. (5) Statement was submitted on company's own segregation, which differed materially from that of the uniform statement. (6) Statement was not sufficiently complete to warrant

checking. (7 and 8) Did not consent to examination of the books.

"The remaining twenty statements were checked in coöperation with the Forest Service, and were combined in compiling a composite statement. In this formal report the composite statement (after making some adjustments assented to by Mr. Cary, of the Forest Service) is separated into two parts shown on the following page—one representing mills that ship by rail and the other representing mills that ship both cargo and rail. If you furnished a statement, and it was audited, your individual averages are shown for comparison under the heading, 'Your Mill':

Composite Statements of the Cost of Manufacturing Lumber.

Embodying the figures of 20 mills in Washington and Oregon for the year 1913.

| | Rail Mills. | Cargo and Rail Mills. |
|--|-----------------|--------------------------|
| Total Cut | 250,253,916 ft. | 441,066,295 ft. |
| Average Cut per Mill.... | 25,025,391 ft. | 44,106,629 ft. |
| Total Day's Run (Including Night Shifts).... | 2,540.5 | 3,289.8 |
| Avg. Day's Run per Mill. | 254. | 329. |
| Avg. Cut per Day per Mill | 98,499 ft. | 134,076 ft. |
| Total Number of Men (Day Shift Only).... | 1,244 | 2,004 |
| Avg. Number of Men per Mill (Day Shift Only) | 124 | 200 |
| Avg. Wages per Day..... | \$2.76 | \$2.68 |
| Percentage of Output Sur- faced | 78% | 44% |

| | Rail Mills. | Cost— Cargo and Rail Mills. |
|-------------------------|-------------|-----------------------------------|
| Boom Labor | \$.059 | \$.064 |
| " Repairs & Supplies. | .014 | .011 |
| Mill Labor | 1.463 | 1.416 |
| " Repairs & Supplies... | .593 | .540 |

| | Cost | |
|---|-------------|-----------------------|
| | Rail Mills. | Cargo and Rail Mills. |
| Total Boom. & Mill.... | \$2.129 | \$2.031 |
| Planer Labor | \$.590 | \$.393 |
| “ Repairs & Supplies. . | .124 | .087 |
| Kiln Labor | .192 | .162 |
| “ Repairs & Supplies... | .019 | .011 |
| Total Planers & Kilns. | \$.925 | \$.653 |
| Yard Labor | \$1.143 | \$1.112 |
| “ Repairs & Supplies.. | .113 | .181 |
| Total Yard | \$1.256 | \$1.293 |
| Total Direct Operation | \$4.310 | \$3.977 |
| Salaries | \$.358 | \$.286 |
| Sundry Expense | .180 | .123 |
| Industrial Insurance | .082 | .073 |
| Fire Insurance | .168 | .125 |
| Taxes | .079 | .083 |
| Total General Expense | \$.867 | \$.690 |
| Depreciation | .480 | .397 |
| Total Mfg. Cost..... | 5.657 | 5.064 |
| Int. on Plant at 6%.. | .410 | .434 |
| Interest on Lumber Stock.. | \$.202 | .119 |
| “ “ Log Stock..... | .069 | .069 |
| “ “ Accts. Rec’ble.. | .092 | .063 |
| “ “ Current Cash.. | .017 | .017 |
| Total Interest on Work- ing Capital at 6%... | \$.380 | \$.268 |
| Total Cost with Int.. | \$6.447 | \$5.766 |

“In considering the foregoing figures, the following comment should be borne in mind:

“COST OF LOGS and COST OF SELLING are not included, excepting that Salaries and Sundry Expense cover the usual handling of sales in the office. The cost of commissions, separate sales offices, traveling salesmen, etc., is excluded. The yard cost absorbs the handling of lumber sold at retail, the extra cost of which is small in a composite statement.

"Lost accounts, which were not included in the cost, averaged $6\frac{1}{2}$ c per M on the cut for the rail mills and 5c per M for the cargo and rail mills. This included losses on local or retail sales for both classes of mills. It may be that there were further losses in the latter class, on accounts transferred to San Francisco.

"Shipping expenses not common to all the mills have been excluded, such as scow rent and towing, switching to main line of railroad, etc.

"INTEREST. To the 'Manufacturing Cost' there is added the cost of the use of the money tied up in plant, logs, lumber, customers' accounts, etc., after allowing for amounts owing for payrolls, logs, and supplies. The portion of this money which is supplied by the stockholders might be invested in interest-paying securities if it were not laid out in the saw mill business, and the portion which is borrowed requires a direct cash expenditure for its use (interest). Therefore, while technical accounting would exclude interest from the manufacturing account, it is in fact a cost of conducting the business and is here shown in the cost per M feet of lumber cut. The rate of 6% is used in the statement, though money to carry stock and accounts costs 7% and 8%.

"It will be noted that for convenience the rate per thousand for interest on logs and cash is the same for all of the mills, though the cargo shipping mills probably require a larger stock of logs per thousand for their orders than do the rail mills.

"SHUT-DOWNS and NIGHT-RUNS. It will be observed that the average run of the rail mills furnishing statements was 254 ten-hour days, and of the cargo and rail mills 329 ten-hour days. The former class included the shortest run of all of the mills, and the latter class, so far as the data at hand indicates, included all of the night-runs.

"Obviously the average cost per thousand for General Expense and Interest on Plant is increased by shut-downs and reduced by night-runs. A comparison of costs should take this into consideration. Depreciation is affected similarly, unless based on the quantity of lumber cut.

"INCREASE and DECREASE of STOCK ON HAND. The cargo and rail mills that furnished

statements, cut approximately 20,000,000 feet more than they shipped. Since that portion of the year's cut would still have to be disposed of at the expense of subsequent operations, there should be added to the 1913 cost enough to cover handling, running through planers, etc., on the quantity of lumber unshipped. How much of it would require surfacing is a question; but to cover surfacing, handling, etc., there probably should be added to the above figures say 5c per thousand on the total cut. This additional cost is of little importance in the composite figures; but mills comparing their individual statements with them should make due allowance for the disposal of any considerable increase or decrease of their stock on hand in the year 1913. This applies, of course, to the rail mills also, though their combined net increase of stock was only 700,000 feet. All expenses, including yard and planers, have been divided by the whole cut in arriving at the average costs.

"SHINGLE CANTS. In cases where the saw-mill turned shingle cants over to a shingle mill, the displacement of lumber cut due to the shingle cants was determined as carefully as possible, based on information supplied by the mill, and the displacement so found was added to the apparent lumber cut and the yard cost adjusted accordingly, for the composite statement.

"SURFACING. In most cases it was necessary to estimate the percentage of output surfaced, by tests of the sales, owing to inadequate records or unreliable planing mill reports.

"NUMBER of MEN and AVERAGE WAGES. This information cannot be reconciled with the other figures of the statement, owing to night shifts and adjustments previously referred to.

"COST FIGURES FROM ADDITIONAL MILLS. It seems probable that the Government, i. e. the Forest Service, will continue the work of obtaining costs. If it does, a finer classification of the mills—a larger number of composite statements—may be made possible. The rail mills might be divided into three classes with respect to their capacities, say small, medium and large. The cargo-shipping mills also might be classified, separating from the others those that ship little or no lumber by rail.

Any composite statement, however, would have to guard against the exposure of any mill's figures without its consent.

"COST SEGREGATION. Following is a brief outline of the cost that is included in each item of the statement:

"Boom Labor. Handling the logs after they are delivered in the mill boom, including delivery to the log haul.

"Boom Repairs and Supplies. Labor and material used in repairs, supplies and small tools. Where found, the use of boats in shifting logs has been included.

"Mill Labor. Hauls logs into mill and places lumber onto trucks from sorting chain. Includes power and portion of watchman's time. Millwrights are excluded, they being included in Mill Repairs and Supplies.

"Mill Repairs and Supplies. Millwrights and other repair labor. Repair material and all supplies. Includes power repairs and supplies.

"Planer Labor. Takes lumber from trucks; surfaces, grades, ties and reloads it on trucks. Includes planers in sawmill, and power labor.

"Planer Repairs and Supplies. Labor and material for repairs; supplies, including twine. Includes power repairs.

"Kiln Labor. Loads kiln trucks, passes them through kiln, and unloads unless the kiln trucks are unloaded directly by the planer crew.

"Kiln Repairs and Supplies. Labor and material used in repairs. Should also include cross-sticks used in piling lumber on trucks, but very few mills take account of this expense.

"Yard Labor. Includes labor of transportation, piling, handling in sheds, loading, operation of cranes, etc. Broadly speaking, it covers all handling outside of the mill, kiln and planers.

"Yard Repairs and Supplies. Labor and material used for repair of yard, wharf, sheds, etc. Includes use of horses, without teamsters.

"Salaries. Administrative and office salaries, less allowances for logging and other departments.

"Sundry Expense. Covers office supplies, association dues, legal expense, donations, incidental traveling expenses, etc.

"Industrial Insurance. Covers premiums, assessments, payments to injured, etc., excluding lath mill.

"Fire Insurance. On plant, lumber, etc., excluding residences, stores, etc.

"Taxes. On real and personal property directly connected with the manufacture of lumber. Excludes taxes on logging equipment, residences, stores, etc.

"Depreciation. Depreciation in this statement is practically a composite figure of the depreciation found on the mills' books. The basis in some instances is a percentage of the plant value, in others is a lump sum, and in still others is a rate per M feet of lumber cut. The question of a proper charge for depreciation in the composite statement is still open for consideration.

"Repairs. It is probable that some repair labor has been included in the operating labor accounts, particularly in the yard where the time of men making repairs is not always separated from the operating labor. In some instances it was found that planking, spikes, etc., used in yard repairing had not been charged on the books."

APPENDIX B.

SELLING COSTS.

(1) EXHIBIT E.

The following statement, subject to the notes appended, gives the results of a study by representatives of the Forest Service of the cost of delivering logs into Puget Sound. This work is part of the general study of the lumber industry of the Pacific Northwest which is being made by the departments of Agriculture and Commerce. Coöperation on the part of the industry, without which nothing of this kind could have been done, was courteously extended and is heartily appreciated by the Forest Service.

Average Cost of Delivering Logs from Tree to Puget Sound.

(Embodying the figures from twenty camps.) Output (1913) and investment.

| | |
|---|----------------|
| Per cent of total output (approximate)... | 75% |
| Average year's output per camp..... | 45,000,000 ft. |
| Average day's output per camp..... | 200,000 ft. |
| Average fixed investment | \$140,000 |
| Average working capital | 35,000 |
| Average labor cost per M ft..... | 3.09 |

Cost per M Feet Log Scale

| | |
|--|---------|
| 1. Felling and bucking, labor..... | \$.683 |
| 2. Woods to car, labor..... | 1.259 |
| 3. Railroad (spur) and pole construction, labor | .586 |
| 4. Train crews, labor | .206 |
| 5. Dumping and rafting (includes contract work) | .211 |
| 6. Supplies and maintenance (labor and material) of railroad, dump and boom | .117 |
| 7. Supplies and maintenance (labor and material) of equipment, tools, build- ings, etc. | .307 |
| 8. Fuel of locomotives, logging engines, shops, etc. | .239 |
| 9. Wire rope | .137 |
| 10. Depreciation, equipment | .024 |
| 11. Depreciation main line railroad grade, boom and buildings | .066 |
| 12. Sealing | .049 |
| 13. Return of boom sticks | .046 |
| 14. Log freight | .882 |
| 15. General expense: | |
| Salaries and commissions..... | \$.139 |
| Taxes | .029 |
| Industrial insurance | .096 |
| Sundry expense | .076 |
| | .340 |

| | |
|---|---------|
| Total average cost per M log scale..... | \$5.428 |
|---|---------|

This statement does not include the cost of stumpage, interest of any kind, discounts on logs sold, towage to

mill, or taxes on standing timber. It is intended here to include only the cost of transforming, transporting, and sorting the logs, taking them to the point of sale for straight loggers. Stumpage and the taxes on timber will be handled in another section of the work. Discounts have been looked on as more closely related to realization than to cost of logging. Interest, whether on capital invested or on borrowed money, complicates the matter of cost and is most clearly considered as related to profit.

The classification of costs given in the statement should not be looked on as ideal. It is in fact an expedient. In collecting the data the classification of the companies was followed of necessity; later, in compiling the figures, they were thrown into the best groups that could be made. The main purpose was to arrive at an average total cost figure. This the segregated figures will serve to illuminate.

The aim was to make the statement self-explanatory, but brief additional explanation seems to be required. This will be clearer for a brief statement of the transportation relations of the camps.

The average haul by railroad to water is 23 miles, while 4 is the minimum. A few of the concerns have their own railroads reaching to point of delivery in the Sound, but most logs are hauled for a longer or shorter distance on common carrier railroads. Items 4, 11 and 14, with others in less degree, are materially affected by this fact, are of doubtful value when taken separately, and comparison of any one camp's cost with the average would have little point.

The term "Salaries" refers to the pay of Superintendents and that of bookkeepers, etc., at main offices detached from the woods. Following the practice of many camps, the pay of foremen, camp bookkeepers and scalers, timekeepers, and other general help is thrown pro rata into the cost of the major operations, falling and bucking spur construction, etc., and it is also included in total labor cost.

Item No. 2 includes the labor cost of yarding, roading, loading, moving engines, running out lines, building landings, pumping water, etc.

Number 3 includes the cost of building spur railroads, and the small amount of pole roads employed in this region. In some cases all the railroad used is taken care of under this heading, or as in operating expense. This has the effect of increasing this item above the normal charge and decreasing Classification No. 11. Item 3 was a hard cost to take care of for the additional reason that in some cases the costs from year to year varied greatly due to varying conditions in the "shows," to the time the work was done, and the method of accounting. Where this condition was found it was necessary to use a figure representing the average cost for several years rather than the cost for one year.

Number 5 includes the cost of sorting and rafting the logs, and some of the figures on which the cost was based include the cost of unloading. As a general thing, in fact, the cost of unloading is included. Over one-half of the amount given in the classification was paid to boom companies who do the work at a fixed rate per M feet, the balance representing the amount paid to labor by the logging or lumbering companies.

(2) EXHIBIT F.

Net Average Selling Prices.

Reports from Six Cargo and Rail Mills.

(Cost of selling, commissions, discounts, etc., deducted from gross selling prices, giving net figures here.)

| 1910. | 1911. | 1912. | 1913. | 1914. | 1915 (6 mos.) |
|-------|-------|-------|-------|-------|---------------|
| 14.30 | 12.35 | 13.21 | 13.64 | 11.18 | 10.90 |

| | |
|---|---------|
| Cost of logging (composite statement) | \$ 5.43 |
| Cost of manufacturing (composite statement) | 5.06 |
| Towage estimated | .25 |

Total producing cost\$10.74

*Net Average Selling Prices.**Reports from Six All-Rail Mills.*

(Cost of selling, commissions, discounts, etc., deducted from gross selling prices, giving net figures here.)

| 1910. | 1911. | 1912. | 1913. | 1914. | 1915 (6 mos.) |
|-------|-------|-------|-------|-------|---------------|
| 14.45 | 12.78 | 13.69 | 12.73 | 11.29 | 10.06 |

Cost of logging (composite statement).....\$ 5.43

Cost of manufacturing (composite statement)..... 5.66

Total producing cost\$11.09

Interest on plant, equipment, capital and stumpage and taxes on stumpage not included in above cost figures. Also no stumpage included.

NOTE.—Since Exhibit F was filed Mr. Cary has advised us of the logging cost of “all-rail” mills, as determined by him and the correct figure is used on pages 33 and 36 of this brief, which makes a more correct statement than the combining of Puget Sound logging cost with “all-rail” manufacturing cost. He has also determined that \$5.13 should be the logging cost figure to be used in a combination with the “rail and cargo” manufacturing cost, to take cars over the run where the log is manufactured. This figure is also used on pages 34 and 36 of this brief.

